

ISP GLOBAL TECHNOLOGIES INC

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-10788

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

51-0333696
(I.R.S. Employer Identification No.)

818 WASHINGTON STREET
WILMINGTON, DELAWARE
(Address of Principal Executive Offices)

19801
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (302) 429-8554
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS

Common Stock, par value \$.01 per share

NAME OF EACH EXCHANGE
ON WHICH REGISTERED

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

COMMISSION FILE NUMBER 33-44862

ISP CHEMICALS INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)
RT. 95 INDUSTRIAL AREA, P.O. BOX 37
CALVERT CITY, KENTUCKY
(Address of Principal Executive Offices)

13-3416260
(I.R.S. Employer Identification No.)
42029
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (502) 395-4165

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

COMMISSION FILE NUMBER 33-44862-01

ISP TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE	51-0333795
(State of Incorporation)	(I.R.S. Employer Identification No.)
STATE HIGHWAY 146 & INDUSTRIAL ROAD	
TEXAS CITY, TEXAS	77590
(Address of Principal Executive Offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (409) 945-3411

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

SEE TABLE OF ADDITIONAL REGISTRANTS BELOW

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES ☒ NO ☐

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST KNOWLEDGE OF INTERNATIONAL SPECIALTY PRODUCTS INC., IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. ☐

AS OF MARCH 20, 1998, 96,057,477 SHARES OF COMMON STOCK OF INTERNATIONAL SPECIALTY PRODUCTS INC. WERE OUTSTANDING. THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES OF INTERNATIONAL SPECIALTY PRODUCTS INC. AS OF MARCH 20, 1998 WAS \$275,958,356.63. THE AGGREGATE MARKET VALUE WAS COMPUTED BY REFERENCE TO THE CLOSING PRICE ON THE NEW YORK STOCK EXCHANGE OF COMMON STOCK OF INTERNATIONAL SPECIALTY PRODUCTS INC. ON SUCH DATE (\$17 15/16). FOR PURPOSES OF THE COMPUTATION, VOTING STOCK HELD BY EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANTS AND ISP HOLDINGS INC., AN AFFILIATE OF INTERNATIONAL SPECIALTY PRODUCTS INC., HAS BEEN EXCLUDED. SUCH EXCLUSION IS NOT INTENDED, AND SHALL NOT BE DEEMED, TO BE AN ADMISSION THAT SUCH EXECUTIVE OFFICERS AND DIRECTORS ARE AFFILIATES OF INTERNATIONAL SPECIALTY PRODUCTS INC.

AS OF MARCH 20, 1998, ISP CHEMICALS INC. AND ISP TECHNOLOGIES INC. EACH HAD

10 SHARES OF COMMON STOCK OUTSTANDING. NO SHARES ARE HELD BY NON-AFFILIATES.

AS OF MARCH 20, 1998, EACH OF THE ADDITIONAL REGISTRANTS HAD THE NUMBER OF SHARES OUTSTANDING WHICH IS SHOWN ON THE TABLE BELOW. NO SHARES ARE HELD BY NON-AFFILIATES.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 1998 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the Registrants' fiscal year end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

ADDITIONAL REGISTRANTS

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER -----	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION -----	NO. OF SHARES OUTSTANDING -----	I.R.S. EMPLOYER IDENTIFICATION NO. -----	ADDRESS, INCLUDING ZIP CODE AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICE -----
ISP (PUERTO RICO) INC	Delaware	10	22-2934561	Mirador de Bairoa Calle 27st-14 Caquas, Puerto Rico 00725-8900 (787) 744-3116
ISP ENVIRONMENTAL SERVICES INC	Delaware	10	51-0333801	1361 Alps Road Wayne, NJ 07470 (973) 628-3000
ISP FILTERS INC	Delaware	10	51-0333796	4436 Malone Road Memphis, TN 38118 (901) 795-2445
ISP GLOBAL TECHNOLOGIES INC.....	Delaware	10	51-0333802	818 Washington Street Wilmington, DE 19801 (302) 429-7492
ISP INTERNATIONAL CORP	Delaware	10	51-0333734	818 Washington Street Wilmington, DE 19801 (302) 429-7493
ISP INVESTMENTS INC	Delaware	10	51-0333803	818 Washington Street Wilmington, DE 19801 (302) 429-7496
ISP MANAGEMENT COMPANY, INC	Delaware	10	51-0333800	1361 Alps Road Wayne, NJ 07470 (973) 628-3000
ISP MINERAL PRODUCTS INC	Delaware	10	51-0333794	34 Charles Street Hagerstown, MD 21740 (301) 733-4000
ISP MINERALS INC	Delaware	10	51-0333798	Route 116 Blue Ridge Summit, PA 17214 (717) 794-2184
ISP REAL ESTATE COMPANY, INC	Delaware	2	22-2886551	1361 Alps Road Wayne, NJ 07470 (973) 628-3000
ISP REALTY CORPORATION	Delaware	1,000	13-2720081	1361 Alps Road Wayne, NJ 07470 (973) 628-3000
VERONA INC	Delaware	100	22-3036319	NCNB Plaza, Suite 300 7 North Laurens St. Greenville, SC 29601 (803) 271-9194
BLUEHALL INCORPORATED	Delaware	1	13-3335905	818 Washington Street Wilmington, DE 19801 (302) 651-0165

PART I

ITEM 1. BUSINESS

GENERAL

International Specialty Products Inc. ("ISP") is a leading multinational manufacturer of specialty chemicals, mineral products and filter products.

ISP, incorporated in Delaware in 1991, operates its business exclusively through 20 domestic subsidiaries, including ISP Chemicals Inc., ISP Technologies Inc., ISP Van Dyk Inc., ISP Fine Chemicals Inc. and ISP Freetown Fine Chemicals Inc., 37 international subsidiaries and a joint venture with Huls Aktiengesellschaft, a German corporation ("Huls AG"), in which ISP has a 50% interest and which operates under the name GAF-Huls Chemie GmbH ("GAF-Huls"). Except as the context otherwise requires, "ISP" or the "Company" refers to International Specialty Products Inc. and its subsidiaries and their predecessors.

ISP is an 84% owned subsidiary of ISP Holdings Inc. ("ISP Holdings"). ISP is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of ISP, ISP Holdings and GAF Corporation ("GAF"). On January 1, 1997, GAF effected a series of transactions (collectively, the "Separation Transactions") involving its subsidiaries that resulted in, among other things, the capital stock of ISP Holdings being distributed to the stockholders of GAF. As a result of the Separation Transactions, ISP Holdings and ISP are no longer direct or indirect subsidiaries of GAF or G-I Holdings Inc. ("G-I Holdings"), a subsidiary of GAF.

ISP Chemicals Inc. ("ISP Chemicals"), ISP Technologies Inc. ("ISP Technologies") and the additional registrants are consolidated subsidiaries of ISP and, together with ISP Van Dyk Inc., ISP Fine Chemicals Inc., ISP Freetown Fine Chemicals Inc., International Specialty Products Funding Corporation and ISP Newark Inc., constitute all of the active domestic subsidiaries of ISP. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number of the principal executive offices of ISP are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429-8554 or (800) 526-5315. The address and telephone number of the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P.O. Box 37, Calvert City, Kentucky 42029; (502) 395-4165. The address and telephone number of the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945-3411.

Financial information concerning ISP's industry segments and foreign and domestic operations required by Item 1 is included in Notes 10 and 11 to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

SPECIALTY CHEMICALS

Products and Markets. ISP manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products. ISP uses proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value added specialty chemicals to meet specific customer requirements. The majority of ISP's specialty chemical products are derived from acetylene, including intermediates, solvents, vinyl ethers and polymers, and sales of these products represent the majority of ISP's specialty chemical sales.

ISP's specialty chemicals consist of ten main groups of products: vinyl ether polymers, polyvinyl pyrrolidone polymers, solvents, intermediates, specialty preservatives, sunscreens, emollients, pearlescent pigments, fine chemicals and advanced materials.

Vinyl ether polymers are used by the cosmetics, personal care, pharmaceutical and health-related industries, primarily in hair care and dental care products. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone (PVP) polymers are used primarily in cosmetics, personal care, pharmaceutical and health-related products, food and beverages, and detergent formulations. Examples are binders and disintegrants for tablets and vitamins; clarifiers and chill-hazing elimination agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; resins for hair care products such as hair sprays, mousses, conditioners,

and gels; water proofing ingredients in mascaras, sunscreens and lipsticks; multifunctional polymers for specialty coatings, adhesives, ink-jet inks and media for consumer and industrial applications; and dispersants and binders in agricultural chemical formulations.

Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, coatings, wire enamels, adhesives, plastics, electronics coating and cleaning applications, petroleum extraction and specialty cleaners. ISP's family of solvents includes, among others, N-methyl-2-pyrrolidone, tetrahydrofuran, gamma-butyrolactone and 2-pyrrolidone, of which the last two solvents also are used by ISP as raw materials in the manufacture of monomers and polymers.

Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents and polymers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products. Butanediol, an intermediate produced by ISP, is an essential raw material in the manufacture of polybutylene terephthalate thermoplastic resins and polyurethane elastomers, which are used in the automotive, electronics and appliance industries.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics, personal care and household industries. ISP sells a number of preservative products, including Germall(R) 115, Germall(R) II, Germall(R) Plus, Germaben(R) II, Germaben(R) II-E, Suttocide (R) A and LiquaPar(R) Oil. Uses include infant care preparations, eye and facial makeup, after-shave and nail, bath, hair and skin preparations.

ISP Van Dyk Inc. produces three multifunctional specialty chemical product lines which ISP markets primarily to the cosmetics and personal care industry--ultraviolet absorber chemicals, the principal active ingredients in sunscreens; pearlescent pigments, which provide the pearly or lustrous color in lipsticks, eye shadows and other cosmetics; and emollients and emulsifiers, which are used as moisturizing and softening agents in a variety of creams and lotions, hair care products and other cosmetics. ISP Van Dyk's Escalol(R), Pearl-Glo(R) and Ceraphyl(R) products are widely recognized for their respective sunscreen, pigment and emollient properties.

ISP's fine chemicals business produces a broad range of pharmaceutical intermediates, biological buffers, pheromones and several bulk active pharmaceuticals which serve the pharmaceutical, biotechnology, agricultural and chemical process industries. Fine chemicals are extremely specialized products, made in small quantities, which because of their complexity can be priced at several hundred to several thousand dollars per kilogram. ISP's fine chemicals business also provides a custom manufacturing capability serving the pharmaceutical, biotechnology, agricultural and chemical process industries.

On February 19, 1998, ISP acquired from Polaroid Corporation ("Polaroid") the assets of Polaroid's fine chemicals facility located in Freetown, Massachusetts and entered into a long-term supply and license agreement with Polaroid to produce the imaging chemicals and polymers used by Polaroid in its instant film business. The Company currently plans to expand the production capability at this facility to include the manufacture of certain specialty chemical product lines for the personal care industry and to offer custom manufacturing capability to the pharmaceutical, biotechnology, agricultural and chemical process industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under ISP's trademark Micropowder (R), which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. Using proprietary technology, ISP manufactures more than 50 different grades of Micropowder(R) iron, one of which is sold under the trademark Ferronyl(R), for use as a vitamin supplement. The primary markets for ISP's Micropowder(R) are the domestic defense industry, which employs these products in a variety of coating systems for stealth purposes in aircraft and naval ships, and the metal injection molding segment of the powder metallurgy industry. ISP believes it is the sole domestic manufacturer of carbonyl iron powders. ISP also manufactures a line of processless, electronically imaged film products, including Rad-Sure(R) which is a radiation sensitive film strip affixed to blood bags to indicate whether or not they have been properly irradiated.

Marketing and Sales. ISP markets its specialty chemicals through a worldwide marketing and sales force, typically chemists or chemical engineers, who work closely with ISP's customers to familiarize themselves with their customers' products, manufacturing processes and markets. ISP conducts its marketing and domestic sales from ISP's headquarters in Wayne, New Jersey and regional offices strategically located throughout the United States.

International Operations. ISP markets all of its specialty chemicals worldwide. ISP conducts its international operations through 37 subsidiaries and 41 sales offices located in Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.

ISP had approximately 66% of its international sales in 1997 in countries in Europe and Japan which are subject to currency exchange rate fluctuation risks. For a discussion of the Company's policy regarding the management of these risks, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Financial Condition." Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

International sales in 1997 of ISP's specialty chemicals, excluding sales by GAF-Huls, were approximately 45% of ISP's total 1997 sales. GAF-Huls, a joint venture in which ISP holds a 50% interest, produces certain intermediates and solvents. The GAF-Huls plant is located in Marl, Germany.

Raw Materials. Because of the multi-step processes required to manufacture ISP's specialty chemicals, ISP believes that its raw materials costs represent a smaller percentage of the cost of goods sold than for most other chemical companies. It is estimated that approximately one-third of ISP's manufacturing costs are for raw materials (including energy and packaging). As a result, fluctuations in the pricing of raw materials have less impact on ISP than on those chemical companies for which raw materials costs represent a larger percent of manufacturing costs.

The principal raw materials used in the manufacture of ISP's specialty chemicals are acetylene, methanol and methylamine. Most of these raw materials are obtained from outside sources pursuant to supply agreements. Acetylene, a significant raw material used in the production of most of ISP's specialty chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied via pipeline by a neighboring large multinational company that generates this raw material as a by-product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide. The acetylene utilized by GAF-Huls is produced by Huls AG, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and electric arc), provides ISP with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has a long-standing agreement with GAF-Huls to import butanediol into the United States for use as a feedstock for the production of ISP's solvents and polymers. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty chemicals.

Availability of other raw materials, including methanol and methylamine, remained adequate during 1997. ISP believes that in the event of a supply interruption it could obtain adequate supplies of such raw materials from alternate sources.

Natural gas and raw materials derived from petroleum are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During 1997, crude oil and natural gas supplies remained adequate, while prices generally demonstrated seasonal variations.

MINERAL PRODUCTS

Products and Markets. ISP manufactures mineral products consisting of ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at ISP's quarries and are colored and coated using a proprietary process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is the second largest of only two major suppliers of colored roofing granules in North America. ISP also markets granule by-products for use in the construction and maintenance of fast dry, clay-like tennis courts.

ISP estimates that more than 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather-tightness, or because of the homeowners' desire to upgrade the

appearance of their homes. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefited from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles which results in both functional and aesthetic improvements, which require, on average, approximately 60% more granules than traditional three-tab, lightweight roofing shingles.

Sales to Building Materials Corporation of America ("BMCA"), an affiliate of the Company, and its subsidiary, U.S. Intec, Inc. ("USI"), constituted approximately 62% of ISP's mineral products net sales in 1997. See Item 13, "Certain Relationships and Related Transactions" and Note 9 to Consolidated Financial Statements.

Raw Materials. ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to absorb pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years.

FILTER PRODUCTS

ISP manufactures and sells filter products, consisting of pressure filter vessels, filter bags and filter systems. These filter products are designed for the removal of macroscopic contaminants in the treatment of process liquids. The paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries accounted for almost all of ISP's 1997 net sales of filter products.

ISP manufactures pressure filter vessels at manufacturing facilities in Brazil, Canada and Germany, which serve both local and international markets. ISP also manufactures filter bags in Belgium, Canada, Singapore, Brazil and the United States and supplies filter products worldwide through its subsidiaries, sales offices and distributors.

COMPETITION

ISP believes that it is either the first or second largest seller worldwide of its specialty chemicals derived from acetylene other than butanediol and tetrahydrofuran. Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany, Japan and Korea. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and its principal competitor, that manufacture a limited number of ISP's other specialty chemicals, the market position of these companies is much smaller than that of ISP (other than as to solvents and intermediates, with respect to which there is a significant second competitor and a new entrant in the market). In addition to ISP's competition as noted above, there are other companies that produce substitutable products for a number of ISP's specialty chemicals. These companies compete with ISP in the personal care, pharmaceutical, beverage preservative and industrial markets and have the effect of limiting ISP's market penetration and pricing flexibility. With respect to advanced materials, ISP believes it is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

With regard to its mineral products, ISP has only one major and one smaller competitor and believes that competition has been limited by: (i) the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves; (ii) the limited availability of proven rock sources; (iii) the complexity associated with the construction of a mineral processing and coloring plant, together with the technical know-how required to operate such a plant; (iv) the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and (v) the difficulty in obtaining the necessary permits to mine and operate a quarry.

With respect to filter products, ISP competes with a number of companies worldwide.

Competition is largely based upon product and service quality, technology, distribution capability and price. ISP believes that it is well positioned in the marketplace as a result of its broad product lines, sophisticated technology and worldwide distribution network.

RESEARCH AND DEVELOPMENT

ISP's worldwide research and development expenditures were \$21.9 million, \$25.4 million and \$27.3 million in 1995, 1996 and 1997, respectively.

ISP's research and development activities are conducted primarily at ISP's worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at plant sites in Calvert City, Kentucky, Texas City, Texas, Chatham, New Jersey, Belleville, New Jersey, Freetown, Massachusetts and Columbus, Ohio and technical centers in the United Kingdom, Belgium, Germany, China and Singapore. ISP's mineral products research and development facility, together with its customer design and color center, is located at Hagerstown, Maryland.

ENVIRONMENTAL SERVICES

ISP has received site designation for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the New Jersey Turnpike to the site. If ISP is successful in securing the necessary permits to construct and operate the hazardous waste facility, ISP intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. ISP estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. ISP anticipates utilizing internally generated cash and/or seeking project or other independent financing for this project.

PATENTS AND TRADEMARKS

ISP owns or licenses approximately 342 domestic and 343 foreign patents or patent applications and owns or licenses approximately 129 domestic and 1,337 foreign trademark registrations or applications related to the business of ISP. While the Company believes the patent protection covering certain of its products to be material to those products, the Company does not believe that any single patent, patent application or trademark is material to ISP's business or operations.

The Company believes that the duration of the existing patents and patent licenses is satisfactory.

ENVIRONMENTAL COMPLIANCE

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters (the "Regulations") have been adopted and amended. By reason of the nature of the operations of the Company and its predecessor and certain of the substances that are or have been used, produced or discharged at their plants or at other locations, the Company is affected by the Regulations. The Company has made capital expenditures of less than \$3.9 million in each of the last three years in order to comply with the Regulations (which expenditures are included in additions to property, plant and equipment) and anticipates that aggregate capital expenditures relating to environmental compliance in each of 1998 and 1999 will be approximately \$4.0 million.

The Regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid and hazardous waste, and the remediation of any releases of hazardous substances and materials to the environment. The Company believes that its manufacturing facilities comply in all material respects with applicable Regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for compliance with the Regulations will not materially affect its business, liquidity, results of operations, cash flows or financial position.

The Company believes that its manufacturing facilities are being operated in compliance in all material respects with applicable environmental, health and safety laws and regulations, but cannot predict whether more burdensome requirements will be imposed by governmental authorities in the future.

EMPLOYEES

At December 31, 1997, the Company employed approximately 2,675 people worldwide. Approximately 740 employees in the United States and Canada were subject to six union contracts. The Company expects to renegotiate one labor contract during 1998. The Company believes that its relations with its employees and their unions are satisfactory.

The Company has in effect various benefit plans, which include a non-qualified retirement plan for a group of executives, a capital accumulation plan for its salaried and certain hourly employees, a flexible benefit plan for its salaried employees, a retirement plan for certain of its hourly employees, and group insurance agreements providing

life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, the Company has contracted with various health maintenance organizations to provide medical benefits. The Company and, in many cases, its employees contribute to the cost of these plans.

ITEM 2. PROPERTIES

The corporate headquarters and principal research and development laboratories of ISP are located at a 100-acre campus-like office and research park owned by a subsidiary of ISP at 1361 Alps Road, Wayne, New Jersey 07470. The premises are subject to a first mortgage.

The principal domestic and foreign real properties either owned by, or leased to, ISP are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, ISP maintains sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short-term leases.

LOCATION -----	FACILITY -----	PRODUCT LINE -----
DOMESTIC		
Alabama		
Huntsville	Plant*	Specialty Chemicals
Kentucky		
Calvert City	Plant	Specialty Chemicals
Maryland		
Hagerstown	Research Center, Design Center, Sales Office	Mineral Products
Massachusetts		
Freetown.....	Plant, Research Center	Specialty Chemicals
Missouri		
Annapolis	Plant, Quarry	Mineral Products
New Jersey		
Belleville	Plant, Sales Office, Research Center, Warehouse*	Specialty Chemicals
Bridgewater	Sales Office	Specialty Chemicals
Chatham	Plant, Sales Office, Research Center, Warehouse*	Specialty Chemicals
Wayne	Headquarters, Corporate Administrative Offices, Research Center	Specialty Chemicals
Ohio		
Columbus.....	Plant, Research Center, Sales Office	Specialty Chemicals
Pennsylvania		
Blue Ridge Summit	Plant, Quarry	Mineral Products
Tennessee		
Memphis	Plant*, Warehouse*, Distribution Center*	Filter Products
Texas		
Seadrift	Plant	Specialty Chemicals
Texas City	Plant	Specialty Chemicals
Wisconsin		
Pembine	Plant, Quarry	Mineral Products
INTERNATIONAL		
Belgium		
Sint-Niklaas.....	Plant, Sales Office, Research Center, Distribution Center	Specialty Chemicals and Filter Products
Brazil		
Sao Paulo	Plant*, Sales Office*, Distribution Center*	Specialty Chemicals and Filter Products
Canada		
Mississauga, Ontario	Sales Office*, Distribution Center*	Specialty Chemicals
Oakville, Ontario	Plant*	Filter Products

LOCATION -----	FACILITY -----	PRODUCT LINE -----
Germany		
Cologne	Research Center*, Sales Office*	Specialty Chemicals
Hamburg	Plant*	Filter Products
Great Britain		
Guildford	European Headquarters*, Research Center*	Specialty Chemicals
Manchester	Sales Office, Distribution Center	Specialty Chemicals and Filter Products
India		
Nagpur	Plant	Specialty Chemicals
Japan		
Tokyo	Sales Office*	Specialty Chemicals and Filter Products
Singapore		
Southpoint	Plant*, Sales Office*, Distribution Center*, Asia-Pacific Headquarters*, Warehouse*	Specialty Chemicals and Filter Products
Affiliate:		
GAF-Huls Chemie GmbH		
Marl, Germany	Plant, Sales Office	Specialty Chemicals

* Leased Property

The Company believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1997, the Company made capital expenditures in the amount of \$68.5 million relating to plant, property and equipment.

ITEM 3. LEGAL PROCEEDINGS

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims (including those relating to its closed Linden, New Jersey plant described below), and certain other environmental compliance expenses, as of December 31, 1997, is \$17.8 million, before reduction for insurance recoveries reflected on its balance sheet (discussed below) of \$7.2 million that relate to both past expenses and estimated future liabilities ("estimated recoveries"). In the opinion of management, the resolution of such matters should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and that the recoveries could be well in excess of the current estimated liability for all Environmental Claims, although there can be no assurances in this regard. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

On March 8, 1995, GAF commenced litigation on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities in the United States District Court for the District of New Jersey seeking amounts substantially in excess of the estimated recoveries. The action was dismissed by the court in December 1997 for lack of federal jurisdiction, and one defendant insurer has filed a notice of appeal. On June 16, 1997, GAF filed a similar action against the insurers in the Superior Court of New Jersey, Somerset County, which action is pending. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, ISP entered into a Consent Order with the New Jersey Department of Environmental Protection ("NJDEP") requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee ISP's performance. This Consent Order does not address any potential natural resource damage claims. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. ISP believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than \$7.5 million. See Item 1, "Environmental Services."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the name, age, position and other information with respect to the executive officers of ISP and the executive officers and directors of ISP Chemicals and ISP Technologies.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
-----	---	-----
Samuel J. Heyman..... Chairman and Chief Executive Officer, International Specialty Products Inc.	59	Mr. Heyman has been a director and Chairman and Chief Executive Officer of ISP since its formation and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been a director and Chairman and Chief Executive Officer of ISP Holdings since its formation, of G-I Holdings since August 1988 and of GAF and certain of its subsidiaries since April 1989, prior to which he held the same position with the predecessor to GAF (the "Predecessor Company") from December 1983 to April 1989. He has been a director and Chairman of BMCA since its formation, a director of USI since October 1995 and Chief Executive Officer of BMCA since June 1996. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities.
Peter R. Heinze..... President and Chief Operating Officer, International Specialty Products Inc.	55	Dr. Heinze has been President, Chief Operating Officer and a director of ISP, President and Chief Operating Officer of ISP Chemicals and Chief Operating Officer of ISP Technologies since November 1996. He was Senior Vice President, Chemicals of PPG Industries, Inc., a glass products, coatings and resins, and chemical manufacturer, from April 1993 to November 1996 and Group Vice President, Chemicals of PPG Industries, Inc. from August 1992 to April 1993. From January 1988 to August 1992, Dr. Heinze was President, Chemicals Division, and an Executive Vice President of BASF Corporation, a diversified chemical manufacturing company.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Carl R. Eckardt..... Executive Vice President- Corporate Development	67	Mr. Eckardt was President and Chief Operating Officer of ISP and ISP Chemicals and Chief Operating Officer of ISP Technologies from January 1994 to November 1996. He was Executive Vice President of ISP from its formation to January 1994 and of ISP Chemicals and ISP Technologies from December 1991 to January 1994 and has served as such since November 1996. He has been a director of ISP and Executive Vice President of ISP Holdings since their respective formations. Mr. Eckardt has been Vice Chairman of GAF since November 1996 and a director of GAF since April 1987. He was Executive Vice President of GAF from April 1989 to November 1996 and held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has been Executive Vice President of G-I Holdings since March 1993. He was President of GAF Chemicals Corporation and the Predecessor Company's chemicals division from 1985 to 1987. Mr. Eckardt was Senior Vice President Worldwide Chemicals and Senior Vice President International Chemicals of the Predecessor Company from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the Predecessor Company in 1974.
James P. Rogers..... Executive Vice President-Finance	47	Mr. Rogers has been Executive Vice President-Finance of ISP, ISP Chemicals and ISP Technologies, Executive Vice President and Chief Financial Officer of ISP Holdings, G-I Holdings, GAF and certain of its subsidiaries and Executive Vice President of BMCA and USI since December 1996. He was Senior Vice President and Chief Financial Officer of ISP Holdings, GAF, G-I Holdings and certain of their subsidiaries, and Senior Vice President-Finance of ISP, ISP Technologies and ISP Chemicals from November 1993 to December 1996 and of BMCA from its formation to December 1996. Mr. Rogers has been a director of USI since October 1995 and was Senior Vice President of USI from October 1995 to December 1996. He has served as Treasurer of G-I Holdings, GAF and certain of its subsidiaries since March

1992 and was Vice President-Finance of such corporations from March 1992 to October 1993. He was Treasurer of ISP from March 1992 to December 1994 and from September 1995 to December 1996. From August 1987 to March 1992, Mr.

Rogers was Treasurer of Amphenol Corporation, a manufacturer of electronic connectors.

Andrew G. Mueller.....	55	Mr. Mueller has been Executive Vice
------------------------	----	-------------------------------------

Executive Vice
President-Operations

President-Operations of ISP, ISP Chemicals and ISP Technologies since May 1997. He was employed by BASF Corporation as Group Vice President, Colorants & Textile/ Leather Chemicals from December 1995 to April 1997 and as Vice President, Fiber Intermediates from April 1989 to November 1995.

Richard A. Weinberg..... 38
Senior Vice President and
General Counsel

Mr. Weinberg has been Senior Vice President and General Counsel of ISP, ISP Technologies, ISP Chemicals, GAF, G-I Holdings, BMCA and certain of their respective subsidiaries since May 1996 and of ISP Holdings since its formation. He has been a director of ISP Chemicals and ISP Technologies since May 1996. He was Vice President and General Counsel of BMCA from September 1994 to May 1996, Vice President-Law of BMCA from May 1994 to September 1994 and Vice President-Law of GAFBMC from April 1993 to May 1994. Mr. Weinberg was employed by Reliance Group Holdings Inc., a diversified insurance holding company, as Staff Counsel from October 1987 to January 1990 and as Assistant Vice President and Corporate Counsel from January 1990 to April 1993.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
-----	---	-----
Randall R. Lay..... Vice President and Chief Financial	43	Mr. Lay has been Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies since April 1995. From August 1993 to April 1995, he served as Controller, Specialty Derivatives of ISP. From March 1991 to August 1993, he was Director, Financial Planning of Otis Elevator Company and from July 1989 to March 1991 he was Director, Financial Planning of United Technologies Corporation.

(1) Under ISP's By-laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders and until his or her successor is elected and qualified.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following information pertains to ISP's common stock, which is traded on the New York Stock Exchange. As of March 4, 1998, there were 291 holders of record of ISP's outstanding common stock.

	1997 BY QUARTER				1996 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
Price Range of Common Stock:								
High	\$13 3/4	\$14 3/8	\$15 1/4	\$16 1/2	\$13 1/4	\$12 5/8	\$11 3/8	\$12 3/4
Low.....	11 3/4	11 1/2	13 1/2	13 7/8	10 1/8	10 3/4	9 5/8	9

ISP announced in the second quarter of 1995 that its Board of Directors had eliminated the 21/2 cents per share semi-annual dividend on ISP's common stock. The declaration and payment of dividends is at the discretion of the Board of Directors of ISP. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends set forth on pages F-2 to F-5 and page F-19, respectively. Any decision to resume the payment of dividends, and the timing and amount thereof, is dependent upon, among other things, ISP's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will resume the declaration and payment of dividends or as to the amount thereof.

ITEM 6. SELECTED FINANCIAL DATA

See page F-6.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See page F-2.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index on page F-1 and Financial Statements and Supplementary Data on pages F-7 to F-30.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information relating to the directors of ISP to be contained in the Proxy Statement under the heading "Election of Directors" is incorporated by reference herein. For information relating to the executive officers of ISP, ISP Chemicals and ISP Technologies, see "Executive Officers of the Registrant" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information to be contained in the Proxy Statement under the headings "Compensation of Executive Officers of the Company" and "Election of Directors" is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information to be contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information to be contained in the Proxy Statement under the captions "Election of Directors" and "Certain Transactions" is incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

- (a)(1) Financial Statements: See Index on page F-1.
- (a)(2) Financial Statement Schedules: See Index on page F-1.
- (a)(3) Exhibits:

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	--Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1 (Registration No. 33-40337) (the "Common Stock Registration Statement")).
3.2	--By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).
3.3	--Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1 (Registration No. 33-44862) (the "9% Note Registration Statement")).
3.4	--By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).
3.5	--Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).
3.6	--By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).
4	--Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).
10.1	--Management Agreement, dated as of March 3, 1992 ("Management Agreement"), among GAF, G-I Holdings, G Industries Corp., ISP, GAF Building Materials Corporation and GAF Broadcasting Company, Inc. (incorporated by reference to Exhibit 10.5 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).
10.2	--Amendment No. 1, dated as of January 1, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.3	--Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).
10.4	--Amendment No. 3, dated as of December 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.4 to ISP's Annual Report on Form 10-K for the year ended December 31, 1994).
10.5	--Amendment No. 4, dated as of December 31, 1995, to the Management Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 333-2436)).
10.6	--Amendment No. 5, dated as of October 18, 1996, to the Management Agreement (incorporated by reference to Exhibit 10.6 to ISP Holdings' Registration Statement on Form S-4 (Registration No. 333-17827) (the "ISP Holdings Registration Statement")).
10.7	--Amendment No. 6, dated as of January 1, 1997, to the Management Agreement (incorporated by reference to Exhibit 10.8 to BMCA's Registration Statement on Form S-4 (Registration No. 333-20859)).
10.8	--Amendment No. 7, dated as of December 31, 1997, to the Management Agreement (incorporated by reference to Exhibit 10.10 to BMCA's Registration Statement on Form S-4 (Registration No. 333-41531) (the "BMCA Registration Statement")).
10.9	--Amendment No. 8, dated as of January 1, 1998, to the Management Agreement (incorporated by reference to Exhibit 10.11 to the BMCA Registration Statement).
10.10	--Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings, ISP and certain subsidiaries of ISP (incorporated by reference to Exhibit 10.8 to the ISP Holdings Registration Statement).
10.11	--Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Common Stock Registration Statement).*
10.12	--ISP Amended and Restated 1991 Incentive Plan for Key Employees and Directors ("Incentive Plan") (incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8 (Registration No. 33-92518)).*
10.13	--Amendment No. 1 to the Incentive Plan (incorporated by reference to Exhibit 10.11 to ISP's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Annual Report")).*
10.14	--Amendment No. 2 to the Incentive Plan (incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8 (Registration No. 333-27505)).
10.15	--Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 33-72220)).*
10.16	--Letter Agreement, dated October 15, 1996, between GAF and Dr. Peter Heinze (incorporated by reference to Exhibit 10.14 to the ISP Holdings Registration Statement).*
10.17	--Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).
10.18	--Form of Assignment and Assumption Agreement between G Industries Corp. and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).
10.19	--Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).
10.20	--Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).
10.21	--Form of Intercompany Term Note of ISP payable to the order of ISP

Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).

- 10.22 --Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.23	--Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).
10.24	--Form of Option Agreement relating to Cumulative Redeemable Preferred Stock of ISP Holdings (incorporated by reference to Exhibit 10.21 to the 1996 Annual Report).*
10.25	--Form of ISP Holdings Stock Appreciation Right Agreement (incorporated by reference to Exhibit 10.22 of the 1996 Annual Report).*
21	--Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.
23	--Consent of Arthur Andersen LLP.
27	--Financial Data Schedule for fiscal year 1997, which is submitted electronically to the Securities and Exchange Commission for information only.

* Management and/or compensation plan or arrangement.

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the fourth quarter of 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 1998

INTERNATIONAL SPECIALTY PRODUCTS INC.

By: /s/ RICHARD A. WEINBERG

RICHARD A. WEINBERG
SENIOR VICE PRESIDENT,
GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 1998, by the following persons on behalf of the Registrant and in the capacities indicated.

<u>SIGNATURE</u>	<u>TITLE</u>
<u>/s/ SAMUEL J. HEYMAN</u> SAMUEL J. HEYMAN	Chairman of the Board and Chief Executive Officer
<u>/s/ PETER R. HEINZE</u> PETER R. HEINZE	President and Chief Operating Officer; Director
<u>/s/ CARL R. ECKARDT</u> CARL R. ECKARDT	Executive Vice President, Corporate Development; Director
<u>/s/ HARRISON J. GOLDIN</u> HARRISON J. GOLDIN	Director
<u>/s/ CHARLES M. DIKER</u> CHARLES M. DIKER	Director
<u>/s/ SANFORD KAPLAN</u> SANFORD KAPLAN	Director
<u>/s/ BURT MANNING</u> BURT MANNING	Director
<u>/s/ RANDALL R. LAY</u> RANDALL R. LAY	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 1998

**ISP CHEMICALS INC.
ISP TECHNOLOGIES INC.
ISP FILTERS INC.
ISP GLOBAL TECHNOLOGIES INC.
ISP INTERNATIONAL CORP.
ISP INVESTMENTS INC.
ISP MINERAL PRODUCTS INC.
ISP MINERALS INC.
ISP REAL ESTATE COMPANY, INC.
VERONA INC.
BLUEHALL INCORPORATED
ISP REALTY CORPORATION**

By: /s/ RICHARD A. WEINBERG

 RICHARD A. WEINBERG
 SENIOR VICE PRESIDENT,
 GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 1998, by the following persons on behalf of the Registrant and in the capacities indicated.

<i>SIGNATURE</i> -----	<i>TITLE</i> -----
/s/ SAMUEL J. HEYMAN ----- SAMUEL J. HEYMAN	Chief Executive Officer
/s/ RICHARD A. WEINBERG ----- RICHARD A. WEINBERG	Senior Vice President, General Counsel and Secretary; Director
/s/ RANDALL R. LAY ----- RANDALL R. LAY	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 1998

ISP (PUERTO RICO) INC.

By: /s/ RICHARD A. WEINBERG

RICHARD A. WEINBERG
SENIOR VICE PRESIDENT,
GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 1998, by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE

TITLE

/s/ SAMUEL J. HEYMAN

Chief Executive Officer

SAMUEL J. HEYMAN

/s/ JAMES M. POTTER

President and Director

JAMES M. POTTER

/s/ RICHARD A. WEINBERG

Senior Vice President,
General Counsel and
Secretary; Director

RICHARD A. WEINBERG

/s/ RANDALL R. LAY

Vice President and Chief
Financial Officer
(Principal Financial and
Accounting Officer)

RANDALL R. LAY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 1998

ISP ENVIRONMENTAL SERVICES INC. ISP MANAGEMENT COMPANY, INC.

By: /s/ RICHARD A. WEINBERG

RICHARD A. WEINBERG
SENIOR VICE PRESIDENT,
GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 1998, by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE -----	TITLE -----
/s/ SAMUEL J. HEYMAN ----- SAMUEL J. HEYMAN	Chief Executive Officer
/s/ PETER R. HEINZE ----- PETER R. HEINZE	President and Chief Operating Officer; Director
/s/ RICHARD A. WEINBERG ----- RICHARD A. WEINBERG	Senior Vice President, General Counsel and Secretary; Director
/s/ RANDALL R. LAY ----- RANDALL R. LAY	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INTERNATIONAL SPECIALTY PRODUCTS INC.

FORM 10-K

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INTERNATIONAL SPECIALTY PRODUCTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

1997 Compared With 1996

International Specialty Products Inc. (the "Company") recorded net income in 1997 of \$92.6 million (96 cents diluted earnings per share) compared with net income of \$80.7 million (82 cents diluted earnings per share) in 1996. The 15% improvement in net income was attributable to higher operating income (up \$7.3 million), an \$8.5 million increase in other income, and a \$2.6 million reduction in interest expense.

Sales for 1997 were \$749.2 million compared with \$716.5 million for 1996. The sales growth was attributable to increased sales of specialty chemicals (up \$35.2 million), primarily reflecting increased sales volumes (\$66.7 million), partially offset by the unfavorable effect (\$22.5 million) of the stronger U.S. dollar relative to other currencies in certain areas of the world. Sales for the mineral products business decreased by \$2.5 million due primarily to lower sales volumes. The sales growth in 1997 reflected higher sales in the United States, the Asia-Pacific region and the Western Hemisphere, partially offset by lower sales in Europe due primarily to the unfavorable effect of the stronger U.S. dollar.

Operating income for 1997 increased by 5% to \$143.3 million compared with \$136.0 million for 1996. The increase was due to higher operating income for specialty chemicals (up \$3.8 million) and filter products (up \$3.4 million). The higher specialty chemicals operating income reflected the higher sales levels, partially offset by lower gross margins (down 0.5 percentage point) due to unfavorable pricing and the unfavorable effect of the stronger U.S. dollar, and by higher operating expenses which included a 7% increase in research and development spending. The improvement in filter products results reflected higher sales levels and improved gross margins (up 6.2 percentage points) due mainly to improved pricing. Despite a drop in sales levels, operating income for the mineral products business increased by \$0.5 million due to higher gross margins (up 1.4 percentage points) as a result of improved pricing, and lower operating expenses.

Selling, general and administrative expenses in 1997 increased by \$7.7 million (5%) compared with 1996 and, as a percent of sales, increased slightly from 20.7% in 1996 to 20.8% in 1997. The increase in such expenses included a \$1.9 million (7.5%) increase in research and development spending.

Of the \$7.3 million increase in operating income in 1997, domestic operating income increased by \$15.8 million (24.5%), due to increased sales volumes and improved margins. Operating income for Europe decreased by \$8.7 million (16%), primarily reflecting the effect of the stronger U.S. dollar, while in the Asia-Pacific region, operating income decreased by \$1.2 million, as higher sales levels were offset by lower gross margins due to unfavorable pricing. Operating income from other foreign operations increased by \$1.4 million.

Interest expense for 1997 was \$26.1 million, a decrease of \$2.6 million (9%) from \$28.7 million in 1996. The decrease reflected lower average borrowings (average borrowings of \$393.9 million in 1997 versus \$405.0 million in 1996), partially offset by slightly higher interest rates (average borrowing rate of 7.1% in 1997 versus 6.9% in 1996).

Other income, net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income, net, was \$21.6 million in 1997 compared with \$13.1 million in 1996. The increase in 1997 was due principally to higher net investment income (up \$9.1 million).

1996 Compared With 1995

In 1996, the Company recorded net income of \$80.7 million (82 cents diluted earnings per share) compared with net income of \$67.4 million (68 cents diluted earnings per share) in 1995. The 20% increase in net income was attributable to higher operating income (up \$8.9 million), a \$4.4 million reduction in interest expense, and a \$6.4 million increase in other income.

Sales for 1996 were \$716.5 million compared with \$689.0 million for 1995. The sales growth was attributable to increased sales of specialty chemicals (up \$25.2 million), primarily reflecting increased sales volumes (\$31.3 million), partially offset by the unfavorable effect (\$7.7 million) of the stronger U.S. dollar relative to other currencies in certain areas of the world, and also reflected higher filter products sales (up \$2.4 million) due to increased unit sales. Sales for the mineral products business decreased by \$0.5 million due to lower sales volumes (down \$2.6 million) resulting from a lost customer and adverse winter weather conditions in the first quarter of 1996. The sales growth in 1996 reflected higher sales in all geographic regions.

Operating income for 1996 increased by 7% to \$136.0 million compared with \$127.1 million for 1995, while the Company's operating margin improved from 18.4% to 19.0%. The increase in operating income was due to higher specialty chemicals operating income (up \$11.6 million or 11%), partially offset by lower filter products results (down \$3.3 million) due to lower gross profit margins. The higher specialty chemicals operating income resulted primarily from the higher sales levels and improved gross margins (up 2.4 percentage points) due to improved pricing and continued benefits from the Company's reengineering program. The gross margin improvement was attributable to the Company's increased focus on manufacturing process improvements through increased production yields, improvements in first pass quality, and increased capacity resulting from shorter production cycle times and increased on-line time for equipment. In addition, raw materials costs were lower in 1996 than in 1995.

Selling, general and administrative expenses in 1996 increased by \$14.3 million (11%) compared with 1995 and, as a percent of sales, increased from 19.5% to 20.7%. The most significant factors for the increase in such expenses were attributable to the Company's geographic expansion efforts (\$3.0 million), increased research and development spending (\$3.5 million) and normal salary increases (\$3.0 million).

Of the \$8.9 million increase in operating income in 1996, domestic operating income increased by \$6.5 million, due primarily to increased sales volumes for specialty chemicals, as well as improved gross margins, while operating income for the European region increased by \$6.6 million, also as a result of higher sales levels and improved gross margins for specialty chemicals. Operating income for the Asia-Pacific region decreased by \$2.6 million as higher sales volumes were more than offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by \$1.5 million.

Interest expense for 1996 was \$28.7 million, a decrease of \$4.4 million (13%) from \$33.1 million in 1995. The decrease reflected lower average borrowings (average borrowings of \$405.0 million in 1996 versus \$442.3 million in 1995) and lower interest rates (average borrowing rate of 6.9% in 1996 versus 8.3% in 1995).

Other income, net, was \$13.1 million in 1996 compared with \$6.7 million in 1995. The increase in 1996 was due principally to higher net investment income (up \$3.6 million) and gains associated with the Company's program to hedge certain of its foreign currency exposures. See Note 1 to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

During 1997, the Company generated cash from operations of \$80.3 million, reinvested \$68.5 million for capital programs and generated \$26.2 million from net sales of available-for-sale and held-to-maturity securities, for a net cash inflow of \$38.0 million before financing activities. Cash from operations in 1997 reflected a \$58.6 million cash outlay for net purchases of trading securities, \$6.3 million of dividends received from the GAF-Huls Chemie GmbH joint venture, and a \$7.5 million cash refund from G-I Holdings Inc. ("G-I Holdings") related to a previous tax sharing agreement between the Company and G-I Holdings (see Note 2 to Consolidated Financial Statements). Cash invested in additional working capital totaled \$21.1 million during 1997. This principally reflected an \$11.3 million increase in inventories and a \$12.5 million increase in accounts receivable, other, due to a \$6.2 million increase in the receivable from the purchaser of the Company's trade receivables and a \$5.8 million receivable for investments sold but not settled, partially offset by \$5.4 million higher payables and accrued liabilities.

Net cash used in financing activities in 1997 totaled \$36.0 million, primarily reflecting a \$35.4 million reduction in borrowings under the Company's bank revolving credit facility and an \$8.6 million reduction in borrowings from an affiliate, partially offset by a \$15.9 million increase in short-term borrowings. Cash used in financing activities also reflected \$10.2 million of expenditures in connection with the Company's common stock repurchase program. The Company's program, begun in 1994, involves open market repurchases from time to time of up to a total of 4,500,000 shares of its common stock. The repurchased shares are held for general corporate purposes, including issuance of shares under the Company's stock option plan. Through December 31, 1997, 4,394,900 shares of the Company's common stock have been repurchased pursuant to the program.

As a result of the foregoing factors, cash and cash equivalents increased by \$2.0 million during 1997 to \$19.7 million (excluding \$169.5 million of trading, available-for-sale and held-to-maturity securities and other short-term investments).

The Company's investment strategy is to seek returns in excess of money market rates on its available cash while minimizing market risks. There can be no assurance that the Company will be successful in implementing such a strategy. The Company invests primarily in international and domestic arbitrage and securities of companies involved in acquisition or reorganization transactions, including at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

In July 1996, the Company entered into a new five-year revolving credit facility (the "Credit Agreement") with a group of banks, which provides for loans of up to \$400 million and letters of credit of up to \$75 million (see Note 6 to Consolidated Financial Statements). As of December 31, 1997, loans in the amount of \$35.0 million and letters of credit in the amount of \$7.9 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$75 million, none of which had been utilized as of December 31, 1997.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and in the indentures relating to the 9% Senior Notes due 2003 and 9 3/4% Senior Notes due 2002, both issued by ISP Holdings Inc. ("ISP Holdings"), the Company's parent and owner of approximately 84% of the Company's common stock. As of December 31, 1997, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the Company's 9% Senior Notes due 1999 (the "9% Notes") limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 6 to Consolidated Financial Statements.

As of December 31, 1997, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1998 aggregated \$0.7 million. In 1999, scheduled repayments of long-term debt include \$200 million relating to the 9% Notes and a \$38.1 million mortgage obligation.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, which includes entering into foreign exchange contracts in order to hedge its exposure. In respect of its foreign exchange contracts, the Company recognized pre-tax gains of \$15.5 and \$7.0 million in 1997 and 1996, respectively, and a loss of \$7.4 million in 1995. At December 31, 1997, the equivalent U.S. dollar fair value of outstanding forward foreign exchange contracts was \$151.6 million, and the amount of unrealized gains and losses on such instruments was immaterial. The equivalent U.S. dollar fair value of foreign exchange contracts outstanding as of December 31, 1997 as a hedge of non-local currency loans was \$24.9 million, representing 100% of the Company's foreign currency exposure with respect to such loans. See Note 1 to Consolidated Financial Statements.

The objectives of the Company in utilizing interest rate swap agreements are to lower funding costs, diversify sources of funding and manage interest rate exposure. As of December 31, 1997, the total notional amount of interest rate swaps outstanding was \$300 million. During 1997, the Company entered into five-year interest rate swap agreements with a total notional amount of \$100 million in order to convert \$100 million of its floating interest rate debt to fixed rates. By utilizing interest rate swap agreements, the Company reduced its interest expense by \$2.1, \$2.8 and \$1.8 million in 1997, 1996 and 1995, respectively. See Note 6 to Consolidated Financial Statements.

ISP Holdings was a wholly-owned subsidiary of GAF Corporation ("GAF") until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries. As a result, ISP Holdings and the Company are no longer direct or indirect subsidiaries of GAF or its subsidiary, G-I Holdings Inc.

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include \$325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and \$199.9 million principal amount of ISP Holdings'

9 3/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the Company's 9% Notes (see Note 6 to Consolidated Financial Statements), and payments pursuant to the Tax Sharing Agreement between ISP Holdings and the Company (see Note 2 to Consolidated Financial Statements). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.

As the Company's stock price appreciates, ISP Holdings may at some future time consider selling shares of the Company's common stock, although it has no current intention to do so. If ISP Holdings were to own less than 80% of the outstanding common stock of the Company, payments pursuant to the Tax Sharing Agreement would not be available to it.

For information with respect to income taxes, see Note 2 to Consolidated Financial Statements.

The Company announced in December 1997 that it had entered into an agreement to purchase Polaroid Corporation's Freetown, Massachusetts fine chemicals facility. The transaction was completed in February 1998. As part of the transaction, the Company entered into a long-term supply and license agreement with Polaroid for the imaging chemicals and polymers manufactured at the facility and used by Polaroid in its instant film business.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project during 1998. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company is in the process of implementing a new global information system for capturing, processing and analyzing data relating to manufacturing, customer service, sales order entry, inventory control and financial systems. The Company is addressing its "Year 2000" compliance issues in conjunction with this initiative. The Company does not believe that the costs of addressing or the impact of the Company's Year 2000 compliance issues will have a material adverse effect on the operations, liquidity or capital resources of the Company. At this time, the Company has no information concerning the impact of Year 2000 issues on its suppliers and customers.

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. See Note 12 to Consolidated Financial Statements for further information.

* * *

FORWARD-LOOKING STATEMENTS

The discussions in this Annual Report on Form 10-K contain both historical information and forward-looking statements. Although the Company believes that any such forward-looking statements are based on reasonable assumptions, these statements involve uncertainties that affect, among other things, the Company's operations, markets, products, services and prices. These uncertainties include economic, competitive, governmental and technological factors. Forward-looking statements contained herein are not historical facts, but only predictions. No assurances can be given that projected results or events will be achieved.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Operating Data:					
Net sales	\$749,208	\$716,481	\$689,002	\$600,047	\$548,252
Gross profit	312,515	297,560	274,330	232,301	218,735
Operating income	143,297	136,024	127,096	99,245	65,091
Interest expense	26,126	28,729	33,091	28,676	24,500
Income before income taxes	144,638	125,967	106,102	72,484	49,823
Net income	92,649	80,663	67,375	44,515	29,558
Earnings per common share:					
Basic	\$.96	\$.83	\$.68	\$.45	\$.30
Diluted	\$.96	\$.82	\$.68	\$.45	\$.30
Dividends per common share	\$ --	\$ --	\$ --	\$.05	\$.05
Other Data:					
Gross profit margin	41.7%	41.5%	39.8%	38.7%	39.9%
Operating margin	19.1%	19.0%	18.4%	16.5%	11.9%
Depreciation	\$ 41,553	\$ 38,279	\$ 35,960	\$ 32,753	\$ 28,737
Goodwill amortization	13,176	13,200	13,223	13,400	13,856
Capital expenditures and acquisitions	68,546	54,587	38,934	31,098	62,858
	DECEMBER 31,				
	1997	1996	1995	1994	1993
	(THOUSANDS)				
Balance Sheet Data:					
Total working capital	\$266,967	\$219,702	\$142,550	\$121,803	\$ 78,263
Total assets	1,395,584	1,316,914	1,312,938	1,251,304	1,243,315
Long-term debt	328,639	372,870	347,491	377,106	367,722
Stockholders' equity	784,230	701,493	643,244	582,368	534,012

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 84% owned subsidiary of ISP Holdings Inc.) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements and the schedule and supplementary financial information referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, schedule and supplementary financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, appearing on pages F-8 to F-29 of this Form 10-K, present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule and supplementary financial information appearing on pages S-1 to S-4 of this Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 23, 1998

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales	\$ 749,208	\$ 716,481	\$ 689,002
Costs and expenses:			
Cost of products sold	436,693	418,921	414,672
Selling, general and administrative ...	156,042	148,336	134,011
Goodwill amortization	13,176	13,200	13,223
Total costs and expenses	605,911	580,457	561,906
Operating income	143,297	136,024	127,096
Interest expense	(26,126)	(28,729)	(33,091)
Equity in earnings of joint venture	5,909	5,604	5,413
Other income, net	21,558	13,068	6,684
Income before income taxes	144,638	125,967	106,102
Income taxes	(51,989)	(45,304)	(38,727)
Net income	\$ 92,649	\$ 80,663	\$ 67,375
Earnings per common share:			
Basic	\$.96	\$.83	\$.68
Diluted	\$.96	\$.82	\$.68
Weighted average number of common and common equivalent shares outstanding:			
Basic	96,061	97,197	98,613
Diluted	97,010	97,813	98,819

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1997	1996
	(THOUSANDS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,730	\$ 17,753
Investments in trading securities	53,489	1,273
Investments in available-for-sale securities	107,949	114,323
Investments in held-to-maturity securities	311	1,977
Other short-term investments	7,795	6,149
Accounts receivable, trade, less reserve of \$2,724 and \$2,840	67,077	66,875
Accounts receivable, other	25,288	12,835
Receivable from related parties, net	264	5,518
Inventories	119,910	108,586
Other current assets	16,751	13,239
Total Current Assets	418,564	348,528
Property, plant and equipment, net	513,206	489,474
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$118,203 and \$105,025	404,082	417,258
Other assets	59,732	61,654
Total Assets	\$ 1,395,584	\$ 1,316,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 38,172	\$ 22,275
Current maturities of long-term debt	684	610
Accounts payable	46,252	42,939
Accrued liabilities	60,434	57,134
Income taxes	6,055	5,868
Total Current Liabilities	151,597	128,826
Long-term debt less current maturities	274,642	310,294
Long-term notes payable to related party	53,997	62,576
Deferred income taxes	70,253	52,665
Other liabilities	60,865	61,060
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share; 20,000,000 shares authorized: no shares issued	--	--
Common stock, \$.01 par value per share; 300,000,000 shares authorized: 99,888,646 shares issued ...	999	999
Additional paid-in capital	441,484	441,203
Treasury stock, at cost--3,945,352 and 3,451,522 shares	(38,229)	(30,874)
Retained earnings	372,946	280,297
Cumulative translation adjustment and other	7,030	9,868
Total Stockholders' Equity	784,230	701,493
Total Liabilities and Stockholders' Equity	\$ 1,395,584	\$ 1,316,914

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS)		
Cash and cash equivalents, beginning of year	\$ 17,753	\$ 14,080	\$ 20,127
Cash provided by operating activities:			
Net income	92,649	80,663	67,375
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	41,553	38,279	35,960
Goodwill amortization	13,176	13,200	13,223
Deferred income taxes	14,080	(2,494)	(18,809)
Increase in working capital items	(21,140)	(7,650)	(5,105)
Purchases of trading securities	(148,190)	(42,002)	(66,483)
Proceeds from sales of trading securities	89,542	47,677	104,058
Decrease in other assets	1,804	780	56
Increase (decrease) in other liabilities	4,518	(31)	(1,343)
Change in net receivable from/payable to related parties	5,254	(14,947)	6,093
Change in cumulative translation adjustment	(7,483)	(8,376)	6,918
Other, net	(5,449)	(813)	1,868
Net cash provided by operating activities	80,314	104,286	143,811
Cash used in investing activities:			
Capital expenditures and acquisitions	(68,546)	(54,587)	(38,934)
Purchases of available-for-sale securities	(214,590)	(287,361)	(364,012)
Purchases of held-to-maturity securities	(1,623)	(14,331)	(5,592)
Purchases of other short-term investments	--	(1,264)	(2,188)
Proceeds from sales of available-for-sale securities ...	239,177	291,408	257,197
Proceeds from held-to-maturity securities	3,289	16,972	974
Net cash used in investing activities	(42,293)	(49,163)	(152,555)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	--	2,000	3,768
Increase (decrease) in short-term debt	15,897	(14,256)	36,199
Increase (decrease) in borrowings under revolving credit facility	(35,425)	29,625	(4,200)
Other increase (decrease) in long-term debt, net	(153)	543	(1,435)
Decrease in loans from related parties	(8,579)	(55,258)	(15,216)
Repurchases of common stock	(10,240)	(15,134)	(16,614)
Other, net	2,456	1,030	195
Net cash provided by (used in) financing activities	(36,044)	(51,450)	2,697
Net change in cash and cash equivalents	1,977	3,673	(6,047)
Cash and cash equivalents, end of year	\$ 19,730	\$ 17,753	\$ 14,080

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS)		
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	\$ (12,655)	\$ (8,884)	\$ (10,892)
Inventories	(11,324)	(575)	1,029
Other current assets	(2,525)	(967)	2,105
Accounts payable	4,189	1,186	(5,895)
Accrued liabilities	1,104	1,738	8,389
Income taxes	71	(148)	159
	-----	-----	-----
Net effect on cash from increase in working capital items	\$ (21,140)	\$ (7,650)	\$ (5,105)
	=====	=====	=====
Cash paid during the period for:			
Interest (net of amount capitalized)	\$ 28,938	\$ 33,015	\$ 36,776
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	22,973	61,701	44,489

* Working capital items exclude cash and cash equivalents, short-term investments, short-term debt and payables to and receivables from related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions". The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the increase in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 3); such proceeds are reflected in cash from financing activities.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK AND TREASURY STOCK AT COST	CUMULATIVE TRANSLATION ADJUSTMENT AND OTHER	RETAINED EARNINGS
	-----	-----	-----	-----
	(THOUSANDS)			
December 31, 1994	\$ 505,571	\$ (327)	\$ 8,348	\$ 132,259
Net income	--	--	--	67,375
Translation adjustment	--	--	6,918	--
Repurchases of common stock-2,102,200 shares	--	(16,614)	--	--
Change in unrealized gains on available-for-sale securities, net of \$1,198 income tax effect	--	--	2,618	--
Issuances under stock option plan-- 28,805 shares	--	223	--	--
Excess of cost of treasury stock issued over proceeds	(28)	--	--	--
Adjustment of unfunded pension liability	--	--	384	--
December 31, 1995	\$ 505,543	\$ (16,718)	\$ 18,268	\$ 199,634
Net income	--	--	--	80,663
Translation adjustment	--	--	(8,376)	--
Repurchases of common stock-1,443,700 shares	--	(15,134)	--	--
Reclassification to additional paid-in capital of the excess of purchase price over the adjusted historical cost of predecessor company shares	(63,483)	--	--	--
Change in unrealized gains on available-for-sale securities, net of \$48 income tax effect	--	--	(820)	--
Issuances under stock option plan-- 112,823 shares	--	957	--	--
Issuances of stock (1,750 shares) and options as incentives	323	21	--	--
Excess of cost of treasury stock issued over proceeds	(181)	--	--	--
Adjustment of unfunded pension liability	--	--	796	--
December 31, 1996	\$ 442,202	\$ (30,874)	\$ 9,868	\$ 280,297
Net income	--	--	--	92,649
Translation adjustment	--	--	(7,483)	--
Repurchases of common stock-800,000 shares	--	(10,240)	--	--
Change in unrealized gains on available-for-sale securities, net of \$2,635 income tax effect	--	--	5,338	--
Issuances under stock option plan-- 305,670 shares	--	2,880	--	--
Issuances of stock (500 shares) and options as incentives	696	5	--	--
Excess of cost of treasury stock issued over proceeds	(415)	--	--	--
Adjustment of unfunded pension liability	--	--	(693)	--
December 31, 1997	\$ 442,483	\$ (38,229)	\$ 7,030	\$ 372,946
	=====	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

International Specialty Products Inc. (the "Company") is a multinational manufacturer of a wide range of specialty chemicals, mineral products and filter products. See Notes 10 and 11 for financial information concerning the Company's industry segments and foreign and domestic operations. Approximately 84% of the Company's common stock is owned by ISP Holdings Inc. ("ISP Holdings").

ISP Holdings was a wholly-owned subsidiary of GAF Corporation ("GAF") until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries (the "Separation Transactions"). As a result, ISP Holdings and the Company are no longer direct or indirect subsidiaries of GAF or its subsidiary, G-I Holdings Inc. ("G-I Holdings").

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All subsidiaries are consolidated and intercompany transactions have been eliminated.

Financial Statement Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates. Actual results could differ from those estimates. In the opinion of management, the financial statements herein contain all adjustments necessary to present fairly the financial position and the results of operations and cash flows of the Company for the periods presented. The Company has a policy to review the recoverability of long-lived assets and identify and measure any potential impairments. The Company does not anticipate any changes in management estimates that would have a material impact on operations, liquidity or capital resources.

Investment in Joint Venture

The Company's 50% ownership of GAF-Huls Chemie GmbH ("GAF-Huls"), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF-Huls was \$34.3 and \$38.2 million as of December 31, 1997 and 1996, respectively, and is included in "Other assets". Dividends received by the Company from GAF-Huls totaled \$6.3, \$5.7 and \$0.3 million for 1997, 1996 and 1995, respectively.

Short-term Investments

For securities classified as "trading" (including short positions), unrealized gains and losses are reflected in income. For securities classified as "available-for-sale", unrealized gains and losses, net of income tax effect, are included in a separate component of stockholders' equity, "Cumulative translation adjustment and other", and amounted to \$6.1 and \$0.7 million as of December 31, 1997 and 1996, respectively. Investments classified as "held-to-maturity" securities are carried at amortized cost in the Consolidated Balance Sheets.

"Other income, net", includes \$31.9, \$20.5 and \$16.5 million of net realized and unrealized gains on securities in 1997, 1996 and 1995, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1995, the Company redesignated certain equity securities held long (which were offsets against short positions in certain other securities), with a fair market value of \$18.1 million, as "trading" and recorded unrealized gains on such securities, through the date of redesignation, in the amount of \$2.1 million as "Other income".

As of December 31, 1997 and 1996, the market value of the Company's equity securities held long was \$160.2 and \$115.1 million, respectively, and the Company had \$22.8 and \$7.9 million, respectively, of short positions in common stocks, based on market value. As of December 31, 1997 and 1996, the market value of the Company's held-to-maturity securities was \$0.3 and \$2.0 million, respectively. The market values referred to above are based

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

on quotations as reported by various stock exchanges and major broker-dealers. With respect to its investments in securities, the Company is exposed to the risk of market loss.

"Other short-term investments" are investments in limited partnerships which are accounted for by the equity method. Gains and losses are reflected in "Other income, net". Liquidation of partnership interests generally require a 30 to 45 day notice period.

Cash and cash equivalents include cash on deposit and debt securities purchased with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. The Company uses an economic life of 10-20 years for land improvements, 40 years for buildings, and 3-20 years for machinery and equipment, which includes furniture and fixtures. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

Foreign Exchange Contracts

The Company enters into forward foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within "Other income, net".

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1997 and 1996, the equivalent dollar fair value of outstanding forward foreign exchange contracts was \$151.6 and \$174.5 million, respectively, and the amount of unrealized gains and losses on such instruments was immaterial at each of such dates. All forward contracts are in major currencies with highly liquid markets and mature within one year. The Company uses quoted market prices obtained from major financial institutions to determine the market value of its outstanding forward exchange contracts. The U.S. dollar equivalent fair value of foreign exchange contracts outstanding as of December 31, 1997 as a hedge of non-local currency loans was \$24.9 million, representing 100% of the Company's foreign currency exposure with respect to such loans.

The Company continually monitors its risk from the effect of foreign currency fluctuations on its operations and on the derivative products used to hedge its risk. The Company utilizes real-time, on-line foreign exchange data and news as well as evaluation of economic information provided by financial institutions. Mark-to-market valuations are made on a regular basis. Hedging strategies are approved by senior management before being implemented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment and other", and amounted to \$1.7 and \$9.1 million as of December 31, 1997 and 1996, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income, net".

Excess of Purchase Price Over the Adjusted Historical Cost of Predecessor Company Shares

Stockholders' equity reflects a reduction of \$63.5 million which arose from a management-led buyout in March 1989 of the predecessor company to the Company's former parent company, GAF (the "Acquisition"), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition. Accordingly, a step-up in asset values to fair value as required by the purchase method of accounting (which was applied to the Acquisition) does not apply to their shares. Such amount has been reclassified to be reflected as a reduction of additional paid-in capital.

Excess of Cost Over Net Assets of Businesses Acquired ("Goodwill")

Goodwill, which arose principally from the Acquisition, is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

Debt Issuance Costs

Debt issuance costs are amortized to expense over the life of the related debt.

Interest Rate Swaps

Gains (losses) on interest rate swap agreements ("swaps") are deferred and amortized as a reduction (increase) of interest expense over the remaining life of the debt issue with respect to which the swaps were entered.

Research and Development

Research and development costs are charged to operations as incurred and amounted to \$27.3, \$25.4 and \$21.9 million for 1997, 1996 and 1995, respectively.

Earnings per Common Share

In February 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", which requires the Company to present Basic Earnings per Share and Diluted Earnings per Share. Earnings per Share data for the years 1996 and 1995 have been restated to conform with the provisions of SFAS No. 128. Diluted Earnings per Share give effect to all dilutive potential common shares that were outstanding during the period under the Company's 1991 Incentive Plan for Key Employees and Directors (see Note 8).

Environmental Liability

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. The Company estimates that its liability in respect of such environmental matters, and certain other environmental compliance expenses, as of December 31, 1997, is \$17.8 million, before reduction for

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

insurance recoveries reflected on its balance sheet of \$7.2 million. The Company's liability is reflected on an undiscounted basis. See Note 12 for further discussion with respect to environmental liabilities and estimated insurance recoveries.

New Accounting Standards

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting comprehensive income and its components in annual and interim financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods is required. The adoption of SFAS No. 130 will have no impact on the Company's consolidated results of operations, financial position or cash flows.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for companies to report information about operating segments in annual financial statements, based on the approach that management utilizes to organize the segments within the Company for management reporting and decision making. In addition, SFAS No. 131 requires that companies report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997. Financial statement disclosures for prior periods are required to be restated. The adoption of SFAS No. 131 will have no impact on the Company's consolidated results of operations, financial position or cash flows.

NOTE 2. INCOME TAXES

Income tax (provision) benefit consists of the following:

YEAR ENDED DECEMBER 31,

	1997	1996	1995
	-----	-----	-----
	(THOUSANDS)		
Federal:			
Current	\$ (30,299)	\$ (38,968)	\$ (48,955)
Deferred	(13,342)	2,071	17,794
	-----	-----	-----
Total Federal	(43,641)	(36,897)	(31,161)
	-----	-----	-----
Foreign--current	(5,394)	(6,648)	(6,432)
	-----	-----	-----
State and local:			
Current	(2,216)	(2,182)	(2,149)
Deferred	(738)	423	1,015
	-----	-----	-----
Total state and local ...	(2,954)	(1,759)	(1,134)
	-----	-----	-----
Income tax provision	\$ (51,989)	\$ (45,304)	\$ (38,727)
	=====	=====	=====

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	-----	-----	-----
	(THOUSANDS)		
Statutory tax provision	\$ (50,545)	\$ (44,045)	\$ (37,136)
Impact of:			
Foreign operations	2,541	1,848	3,633
State and local taxes, net of Federal benefits ..	(1,920)	(1,143)	(737)
Nondeductible goodwill amortization	(4,611)	(4,620)	(4,628)
Percentage depletion	1,680	1,668	1,824
Other, net	866	988	(1,683)
	-----	-----	-----
Income tax provision	\$ (51,989)	\$ (45,304)	\$ (38,727)
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. INCOME TAXES (CONTINUED)

The components of the net deferred tax liability are as follows:

	DECEMBER 31,	
	1997	1996
	(THOUSANDS)	
Deferred tax liabilities related to:		
Property, plant and equipment	\$ 93,601	\$ 90,103
Other	803	1,948
Total deferred tax liabilities	92,798	92,051
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(12,559)	(16,798)
Deferred income	(11,092)	(22,921)
Other	(5,748)	(5,534)
Total deferred tax assets	(29,399)	(45,253)
Net deferred tax liability	63,399	46,798
Deferred tax assets reclassified to other current assets	6,854	5,867
Noncurrent deferred tax liability	\$ 70,253	\$ 52,665
	=====	=====

Effective January 1, 1997, the Company and its domestic subsidiaries entered into a Tax Sharing Agreement with ISP Holdings with respect to the payment of Federal income taxes and certain related matters (the "Tax Sharing Agreement"). During the term of the Tax Sharing Agreement, which extends as long as the Company or any of its domestic subsidiaries, as the case may be, are included in a consolidated Federal income tax return filed by ISP Holdings or a successor entity, the Company is obligated to pay to ISP Holdings an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own consolidated Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes, i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses), only at the time such attributes reduce the Federal income tax liability of ISP Holdings and its consolidated subsidiaries (the "ISP Holdings Group"); and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the ISP Holdings Group. In general, subject to the foregoing limitations, unused tax attributes carry forward for use in reducing amounts payable by the Company to ISP Holdings in future years. Subject to certain exceptions, actual payment for such attributes will be made by ISP Holdings to the Company only when ISP Holdings receives an actual refund of taxes from the Internal Revenue Service (the "IRS") or, under certain circumstances, the earlier of (i) the dates of the filing of Federal income tax returns of the Company for taxable years of the Company following the last taxable year in which it was a member of the ISP Holdings Group, or (ii) when ISP Holdings no longer owns more than 50% of the Company. Foreign tax credits not utilized by the Company in computing its tax sharing payments will be refunded by ISP Holdings to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration.

The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, ISP Holdings makes all decisions with respect to all matters relating to taxes of the ISP Holdings Group. The provisions of the Tax Sharing Agreement take into account both the Federal income taxes the Company would have incurred if it filed its own separate Federal income tax return and the fact that the Company is a member of the ISP Holdings Group for Federal income tax purposes.

The Company was a party to tax sharing agreements with members of the GAF consolidated group (the "GAF Group"). As a result of the Separation Transactions, the Company is no longer included in the consolidated Federal income tax returns of GAF, and therefore, such tax sharing agreements are no longer applicable with respect to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. INCOME TAXES (CONTINUED)

tax liabilities of the Company for periods subsequent to the Separation Transactions. The Company remains obligated, however, with respect to tax liabilities imposed or that may be imposed for periods prior to the Separation Transactions. Among other things, those tax sharing agreements provide for the sharing of the GAF Group's consolidated tax liability based on each member's share of the tax as if such member filed on a separate basis. Accordingly, a payment of tax would be made to GAF equal to the Company's allocable share of the GAF Group's consolidated tax liability. Alternatively, the Company would be entitled to refunds if losses or other attributes reduce the GAF Group's consolidated tax liability. Moreover, foreign tax credits generated by the Company not utilized by GAF will be refunded by GAF or its subsidiary to the Company, if such credits expire unutilized upon termination of the statute of limitations for the year of expiration. Furthermore, those tax sharing agreements provide for an indemnification to the Company for any tax liability attributable to another member of the GAF Group.

On September 15, 1997, GAF received a notice from the IRS of a deficiency in the amount of \$84.4 million (after taking into account the use of net operating losses and foreign tax credits otherwise available for use in later years) in connection with the formation in 1990 of Rhone-Poulenc Surfactants and Specialties, L.P. (the "surfactants partnership"), a partnership in which a subsidiary of GAF, GAF Fiberglass Corporation ("GFC"), holds an interest. The claim of the IRS for interest and penalties, after taking into account the effect on the use of net operating losses and foreign tax credits, could result in GFC incurring liabilities significantly in excess of the deferred tax liability of \$131.4 million that GAF recorded in 1990 in connection with this matter. GAF has advised the Company that it believes that GFC will prevail in this matter, although there can be no assurance in this regard. The Company believes that the ultimate disposition of this matter will not have a material adverse effect on its financial position or results of operations. GAF, G-I Holdings and certain subsidiaries of GAF have agreed to jointly and severally indemnify the Company against any tax liability associated with the surfactants partnership, which the Company would be severally liable for, together with GAF and several subsidiaries of GAF, should GFC be unable to satisfy such liability.

NOTE 3. SALE OF ACCOUNTS RECEIVABLE

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. The agreement under which the Company sells its domestic trade accounts receivable has been renewed each year for one-year periods on substantially the same terms and conditions, and the maximum purchase amount has been increased and provides for up to \$29 million in cash as of December 31, 1997. In January 1998, the maximum purchase amount was increased to \$33 million. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other". The effective cost to the Company varies with LIBOR or commercial paper rates and is included in "Other income, net" and amounted to \$1.8, \$1.6 and \$1.7 million in 1997, 1996 and 1995, respectively.

NOTE 4. INVENTORIES

At December 31, 1997 and 1996, \$52.0 and \$49.2 million, respectively, of domestic inventories were valued using the LIFO method. Inventories comprise the following:

	DECEMBER 31,	
	1997	1996
	-----	-----
	(THOUSANDS)	
Finished goods	\$ 84,912	\$ 68,436
Work in process	20,088	24,261
Raw materials and supplies	18,408	17,814
	-----	-----
Total	123,408	110,511
Less LIFO reserve	(3,498)	(1,925)
	-----	-----
Inventories	\$ 119,910	\$ 108,586
	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises the following:

	DECEMBER 31,	
	1997	1996
	-----	-----
	(THOUSANDS)	
Land and land improvements	\$ 72,710	\$ 71,653
Buildings and building equipment	87,574	85,693
Machinery and equipment	503,206	475,917
Construction in progress	65,651	45,341
	-----	-----
Total	729,141	678,604
Less accumulated depreciation	(215,935)	(189,130)
	-----	-----
Property, plant and equipment, net ...	\$ 513,206	\$ 489,474
	=====	=====

See Note 12 for information regarding capital leases.

NOTE 6. LONG-TERM DEBT

Long-term debt comprises the following:

	DECEMBER 31,	
	1997	1996
	-----	-----
	(THOUSANDS)	
9% Senior Notes due 1999	\$ 200,000	\$ 200,000
Borrowings under revolving credit facility	35,000	70,425
Obligation on mortgaged property, due 1999	38,125	38,125
Obligations under capital leases (Note 12)	1,939	2,068
Other	262	286
	-----	-----
Total long-term debt	275,326	310,904
Less current maturities	(684)	(610)
	-----	-----
Long-term debt less current maturities ...	\$ 274,642	\$ 310,294
	=====	=====

In connection with the issuance of the 9% Senior Notes due 1999 (the "9% Notes"), the Company entered into interest rate swap agreements ("swaps") with banks in an aggregate notional principal amount of \$200 million. In 1993, the Company terminated the swaps, resulting in gains of \$25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies at a fixed spread over LIBOR. During 1997, the Company entered into five-year swaps with banks in the aggregate notional principal amount of \$100 million in order to fix a portion of its interest expense and reduce its exposure to floating interest rates. These swaps require the Company to pay a fixed rate and receive LIBOR for a period of five years. Based on the fair value of the swaps at December 31, 1997 and 1996, the Company would have incurred losses of \$3.3 and \$4.8 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates.

The Company may be considered to be at risk, to the extent of the costs of replacing such swaps at current market rates, in the event of nonperformance by counterparties. However, since the counterparties are major financial institutions, the credit ratings of which are continually monitored by the Company, the risk of such nonperformance is considered by the Company to be remote.

In July 1996, the Company entered into a new five-year revolving credit facility (the "Credit Agreement") with a group of banks, which provides for loans of up to \$400 million and letters of credit of up to \$75 million. Borrowings under the Credit Agreement bear interest at a floating rate (6.15% on December 31, 1997) based on the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6. LONG-TERM DEBT (CONTINUED)

banks' base rate, federal funds rate, Eurodollar rate or a competitive bid rate (which may be based on LIBOR or money market rates), at the option of the Company.

As of December 31, 1997, letters of credit in the amount of \$7.9 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates, in an aggregate amount of up to \$75 million, none of which had been utilized as of December 31, 1997.

The Company has a \$38.1 million mortgage obligation, due 1999, on its headquarters property. Interest on the mortgage is at a floating rate based on LIBOR.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and in the indentures relating to ISP Holdings' 9% Senior Notes due 2003 and 93/4% Senior Notes due 2002. As of December 31, 1997, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1997, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of \$108.8 million.

The Credit Agreement and the indenture relating to the 9% Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates, sale-leaseback transactions, and mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreement also provides for a default if there is a change in control (as defined) of the Company.

Neither the Credit Agreement nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non-public variable rate indebtedness approximates the book value of such indebtedness because the interest rates on such indebtedness are at floating short-term rates. The Credit Agreement also provides for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable. The estimated fair value of the 9% Notes as of December 31, 1997 and 1996 was \$205.5 and \$207.8 million, respectively.

The aggregate maturities of long-term debt as of December 31, 1997 for the next five years are as follows:

(THOUSANDS)

1998.....	\$ 684
1999.....	238,563
2000.....	414
2001.....	39,343
2002.....	287

In the above table, 1999 maturities include the \$200 million of 9% Notes and the \$38.1 million mortgage obligation. Maturities in 2001 include the \$35.0 million of borrowings outstanding under the Credit Agreement as of December 31, 1997, based on the expiration of the Credit Agreement in July 2001, and \$4.0 million of borrowings from ISP Holdings pursuant to a note agreement maturing in July 2001 (see Note 9).

At December 31, 1997, the Company's foreign subsidiaries had total available short-term lines of credit aggregating \$29.0 million, of which \$14.8 million were unused, and the Company also had domestic bank lines of credit totaling \$15.0 million, of which \$13.7 million were unused. The weighted average interest rate on the Company's short-term borrowings as of December 31, 1997 and 1996 was 5.7% and 4.6%, respectively.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

Defined Contribution Plan

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation (any portion of which can be contributed, at the participants' option, in the form of the Company's common stock at a \$.50 per share discount from the market price on the date of contribution), and also contributes fixed amounts, ranging from \$50 to \$750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were \$7.0, \$6.4 and \$6.3 million for 1997, 1996 and 1995, respectively.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

The Company's net periodic pension cost (income) for the Hourly Retirement Plan included the following components:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	-----	-----	-----
	(THOUSANDS)		
Service cost	\$ 284	\$ 315	\$ 287
Interest cost	1,481	1,439	1,349
Actual income on plan assets	(2,152)	(1,733)	(976)
Net deferral and amortization of unrecognized prior service cost	174	174	275
	-----	-----	-----
Net periodic pension cost (income)	\$ (213)	\$ 195	\$ 935
	=====	=====	=====

The following table sets forth the funded status of the Hourly Retirement Plan:

DECEMBER 31,

	1997	1996
	-----	-----
	(THOUSANDS)	
Accumulated benefit obligation:		
Vested	\$ 18,338	\$ 16,914
Nonvested	3,380	3,117
	-----	-----
Total accumulated benefit obligation	\$ 21,718	\$ 20,031
	=====	=====
Projected benefit obligation	\$ 21,718	\$ 20,031
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(21,426)	(19,076)
	-----	-----
Projected benefit obligation in excess of plan assets	292	955
Unrecognized prior service cost	(1,409)	(1,202)
Unrecognized net loss	(693)	--
	-----	-----
Prepaid pension cost	\$ (1,810)	\$ (247)
	=====	=====

At December 31, 1997, the difference between the "Projected benefit obligation in excess of plan assets" and the "Prepaid pension cost", in the amount of \$2,102,000, has been recorded by the Company as an intangible asset in the amount of \$1,409,000 and a reduction of stockholders' equity in the amount of \$693,000. The foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. BENEFIT PLANS (CONTINUED)

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.25% and 7.75% for 1997 and 1996, respectively. The expected long-term rate of return on assets, used in determining net periodic pension cost (income), was 11% for 1997 and 1996.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was \$0.6, \$0.6 and \$1.4 million for 1997, 1996 and 1995, respectively.

Postretirement Medical and Life Insurance

The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees. Such subsidies were reduced or ended as of January 1, 1997.

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1997 and 1996:

	DECEMBER 31,	
	1997	1996
	(THOUSANDS)	
Accumulated postretirement benefit obligation:		
Retirees, dependents and beneficiaries eligible for benefits	\$ 8,465	\$ 8,141
Active employees fully eligible for benefits	1,738	1,941
Active employees not fully eligible for benefits	121	123
	-----	-----
Total accumulated postretirement benefit obligation	10,324	10,205
Fair value of plan assets	--	--
Unrecognized prior service cost and unrecognized net losses ..	180	573
	-----	-----
Accrued postretirement benefit obligation	\$10,504	\$10,778
	=====	=====

The net periodic postretirement benefit cost included the following components:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(THOUSANDS)		
Service cost	\$ 4	\$ 4	\$ 3
Interest cost	752	805	884
Amortization of unrecognized prior service cost	(179)	(39)	(145)
	-----	-----	-----
Net periodic postretirement benefit cost	\$ 577	\$ 770	\$ 742
	=====	=====	=====

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1997 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of \$700 to \$1,000 per year. For retirees over age 65, this subsidy may be replaced by participation in a managed care program. With respect to retirees who were formerly hourly employees, most such retirees are subject to a \$5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 12% and 6% annual rate of increase in the Company's per capita cost of providing postretirement medical benefits was assumed for 1998 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.75% for 1997 and 1996, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by \$416,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1997 by \$34,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees and Directors, as amended (the "Plan"), authorizes the grant of options to purchase a maximum of 7,000,000 shares of the Company's common stock. In 1995, the Company's Board of Directors approved an amendment to the Plan, which was approved by the Company's stockholders in 1996, to permit the Compensation Committee of the Board of Directors (the "Committee") to determine the exercise price and vesting schedule of options granted under the Plan. In 1997, 1996 and 1995, the Company granted options to certain employees to purchase 264,344, 338,645 and 215,500 shares, respectively, of the Company's common stock at exercise prices ranging from \$.625 to \$5.625 below the fair market value of such shares on the date of grant. The difference between the exercise price and the fair market value of such shares on the date of grant is recognized as compensation expense over the vesting periods of 21/2 to 3 years. Compensation expense for such options was \$0.7 million, \$0.3 million and \$0 in 1997, 1996 and 1995, respectively. All other employee options granted under the Plan have a term of nine years, have an exercise price equal to the fair market value of such shares on the date of grant and become exercisable at a rate determined by the Committee at the time of grant. Special vesting rules apply to options granted to non-employee directors.

The Company has elected the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", and applies APB Opinion No. 25 and related interpretations in accounting for the Plan. If the Company had elected to recognize compensation cost based on the fair value of awards under the Plan at grant dates, the Company's pro forma net income for the years 1997, 1996 and 1995 would have been \$90.5, \$80.0 and \$67.2 million, respectively, and pro forma basic earnings per share would have been \$.94, \$.82 and \$.68, respectively. The SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, and the resulting pro forma compensation expense may not be indicative of pro forma expense in future years.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share is the estimated present value at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 6%; expected life of 6 years; expected volatility of 24%; and dividend yield of 0%.

The following is a summary of transactions pertaining to the Plan:

	YEAR ENDED DECEMBER 31, 1997		YEAR ENDED DECEMBER 31, 1996		YEAR ENDED DECEMBER 31, 1995	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, January 1	5,014	\$ 9.32	3,277	\$ 7.86	2,200	\$7.72
Granted	515	11.99	2,110	11.31	1,355	8.05
Exercised	(306)	8.08	(113)	6.90	(29)	6.76
Forfeited	(490)	9.37	(260)	8.17	(249)	7.79
Outstanding, December 31	4,733	9.68	5,014	9.32	3,277	7.86
Options exercisable, December 31	1,294	8.37	1,140	8.45	708	8.65

Based on calculations using the Black-Scholes option-pricing model, the weighted-average fair value of options granted in 1997 and 1996 under the Plan for which the exercise price equaled the fair market value of such shares on the date of grant was \$4.17 and \$3.50 per share, respectively, and such weighted average fair value of options granted in 1997 and 1996 for which the exercise price was less than the fair market value of such shares on the date of grant was \$7.93 and \$5.99 per share, respectively.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. STOCK OPTION PLAN (CONTINUED)

The following is a summary of the status of stock options outstanding and exercisable under the Plan as of December 31, 1997:

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
\$5.00-\$ 7.50.....	1,586	\$ 6.71	5.01 years	726	\$ 6.77
\$7.51-\$11.25.....	1,104	9.40	6.58 years	278	8.84
\$11.26-\$15.19.....	2,043	12.15	7.42 years	290	11.92
Total	4,733	9.68	6.42 years	1,294	8.37
	=====			=====	

NOTE 9. RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ("BMCA"), an indirect wholly-owned subsidiary of GAF and an affiliate of the Company, purchases all of its colored roofing granules requirements from the Company (except for the requirements of its California roofing plant) under a requirements contract. In addition, in December 1995, U.S. Intec, Inc. ("USI"), a subsidiary of BMCA, commenced purchasing substantially all of its requirements for colored roofing granules from the Company (except for the requirements of its Stockton, California and Corvallis, Oregon plants) pursuant to a requirements contract. Each such requirements contract was renewed for 1998 and is subject to annual renewal unless terminated by either party to the respective agreement. In 1997, BMCA and USI purchased a total of \$51.1 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 62% of the Company's net sales of mineral products. Sales by the Company to BMCA and USI totaled \$50.5 and \$45.8 million for 1996 and 1995, respectively. The receivable from BMCA and USI for sales of mineral products as of December 31, 1997 and 1996 was \$2.8 and \$3.3 million, respectively.

Pursuant to a Management Agreement, the Company has provided certain general management, administrative, legal, telecommunications, information and facilities services to ISP Holdings and certain of its affiliates, including GAF, BMCA, G-I Holdings and GFC. Charges by the Company for providing such services aggregated \$5.6, \$6.2 and \$5.4 million for 1997, 1996 and 1995, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges consist of management fees and other reimbursable expenses attributable to, or incurred by the Company for the benefit of, the respective parties, which are based on an estimate of the costs the Company incurs to provide such services. Effective January 1, 1998, the term of the Management Agreement was extended through the end of 1998, and the management fees payable thereunder were adjusted, including an adjustment to reflect the direct payment by BMCA of the costs for certain services rendered by third parties that were previously included in the management fees payable to the Company. The Company and BMCA further modified the agreement to allocate a portion of the management fees payable by BMCA under the Management Agreement to separate lease payments for the use of BMCA's headquarters. Based on the services provided by the Company in 1997, after taking into account the modifications to the agreement described above, the aggregate amount payable to the Company under the Management Agreement for 1998 is expected to be approximately \$5.6 million. BMCA also is expected to pay directly certain third party costs, which aggregated approximately \$0.4 million in 1997, that were previously included in the management fees. In addition, the Company currently anticipates that in 1998 BMCA will require additional space for its headquarters and will pay additional rent based on the square footage to be occupied.

See Note 2 for a discussion of the Tax Sharing Agreement.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. RELATED PARTY TRANSACTIONS (CONTINUED)

Under the terms of the Credit Agreement, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed \$75 million outstanding at any time (see Note 6).

The Company and its subsidiaries also make loans to and borrow from ISP Holdings at the same rates available to the Company under the Credit Agreement. At December 31, 1997 and 1996, the Company had \$50.0 million in borrowings from ISP Holdings pursuant to a note agreement maturing in December 2006 and \$4.0 and \$12.6 million, respectively, in borrowings pursuant to a note agreement maturing in July 2001.

Certain executive officers of the Company were granted stock appreciation rights relating to ISP Holdings' common stock. Compensation expense in connection with such stock appreciation rights is reflected in ISP Holdings' operating expense and was \$0.8 million in 1997 and was \$0 for each of 1996 and 1995.

ISP Holdings has issued options to certain employees to purchase shares of its redeemable convertible preferred stock; such shares are convertible, at the holder's option, into shares of common stock of ISP Holdings at a formula price. The common stock is subject to repurchase by ISP Holdings under certain circumstances at a price equal to current Book Value as defined. No expense is accrued in connection with the preferred stock options.

NOTE 10. BUSINESS SEGMENT INFORMATION

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(MILLIONS)		
Net sales:			
Specialty Chemicals	\$ 622.4	\$ 587.2	\$ 562.0
Mineral Products(1)	83.1	85.6	86.1
Other	43.7	43.7	40.9
	-----	-----	-----
Net sales	\$ 749.2	\$ 716.5	\$ 689.0
	=====	=====	=====
Operating income:			
Specialty Chemicals(2)	\$ 121.7	\$ 117.9	\$ 106.3
Mineral Products	17.0	16.5	16.3
Other	4.6	1.6	4.5
	-----	-----	-----
Total operating income	\$ 143.3	\$ 136.0	\$ 127.1
	=====	=====	=====
Identifiable assets:			
Specialty Chemicals(3)	\$ 985.2	\$ 958.1	\$ 953.5
Mineral Products	155.2	154.5	154.6
Other	23.8	27.7	25.0
General Corporate(4)	231.4	176.6	179.8
	-----	-----	-----
Total assets	\$1,395.6	\$1,316.9	\$1,312.9
	=====	=====	=====
Capital expenditures and acquisitions:			
Specialty Chemicals	\$ 56.2	\$ 41.6	\$ 31.1
Mineral Products	11.2	9.5	6.0
Other	1.1	3.5	1.8
	-----	-----	-----
Total	\$ 68.5	\$ 54.6	\$ 38.9
	=====	=====	=====
Depreciation and goodwill amortization:			
Specialty Chemicals	\$ 43.6	\$ 41.0	\$ 38.6
Mineral Products	10.1	9.6	9.7
Other	1.0	0.9	0.9
	-----	-----	-----
Total	\$ 54.7	\$ 51.5	\$ 49.2
	=====	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10. BUSINESS SEGMENT INFORMATION (CONTINUED)

(1) Includes sales to BMCA and USI of \$51.1, \$50.5 and \$45.8 million for 1997, 1996 and 1995, respectively.

(2) Does not include operating income of the Company's 50% ownership of GAF-Huls. The Company's equity in the earnings of GAF-Huls is reflected in the Consolidated Statements of Income as "Equity in earnings of joint venture" below Operating Income.

(3) Identifiable assets of Specialty Chemicals include the Company's 50% ownership of GAF-Huls. See Note 1.

(4) General Corporate assets primarily represent the Company's investments in trading, available-for-sale and held-to-maturity securities and other short-term investments, which are held for general corporate purposes and are not allocated to industry segments.

The Company manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products encompassing such worldwide markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's mineral products business manufactures ceramic-coated colored roofing granules which are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles. Over 60% of the Company's sales of mineral products are to BMCA (see Note 9). The Company also manufactures filter products.

NOTE 11. GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(MILLIONS)		
Net sales:			
Domestic operations(1)	\$ 390.6	\$ 361.0	\$ 345.2
Europe(2)	201.4	212.3	209.1
Asia-Pacific	112.5	102.9	101.2
Other foreign operations	44.7	40.3	33.5
Net sales	\$ 749.2	\$ 716.5	\$ 689.0
Operating income:			
Domestic operations	\$ 80.2	\$ 64.4	\$ 57.9
Europe	44.4	53.1	46.5
Asia-Pacific	16.3	17.5	20.2
Other foreign operations	2.4	1.0	2.5
Operating income	143.3	136.0	127.1
Equity in earnings of joint venture	5.9	5.6	5.4
Interest expense and other, net ...	(4.6)	(15.6)	(26.4)
Income before income taxes	\$ 144.6	\$ 126.0	\$ 106.1
Identifiable assets:			
Domestic operations	\$ 965.0	\$ 948.4	\$ 954.1
Europe(3)	134.3	130.8	133.1
Asia-Pacific	43.2	41.4	32.2
Other foreign operations	21.7	19.7	13.7
General Corporate(4)	231.4	176.6	179.8
Total assets	\$1,395.6	\$1,316.9	\$1,312.9

(1) Net sales--domestic operations exclude sales by the Company's domestic subsidiaries to foreign-based subsidiaries of \$180.6, \$160.1 and \$140.9 million for 1997, 1996 and 1995, respectively.

(2) Net sales--Europe exclude sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of \$21.2, \$20.7 and \$19.9 million for 1997, 1996 and 1995, respectively.

(3) Identifiable assets--Europe include the Company's 50% ownership of GAF-Huls. See Note 1.

(4) General Corporate assets primarily represent the Company's investments in trading, available-for-sale and held-to-maturity securities and

other short-term investments, which are held for general corporate purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. GEOGRAPHIC INFORMATION (CONTINUED)

Approximately 66% of the Company's international sales in 1997 were in countries in Europe and Japan which are subject to currency exchange rate fluctuation risks. See Note 1 for a discussion of the Company's policy to manage these risks. Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

NOTE 12. COMMITMENTS AND CONTINGENCIES

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include \$325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and \$199.9 million principal amount of ISP Holdings' 93/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the 9% Notes (see Note 6), and payments pursuant to the Tax Sharing Agreement (see Note 2). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Asbestos Litigation Against GAF

GAF has advised the Company that, as of December 27, 1997, it had been named as a defendant in approximately 79,300 pending lawsuits involving alleged asbestos-related bodily injury claims relating to the inhalation of asbestos fiber ("Asbestos Claims"), having resolved approximately 234,500 Asbestos Claims. During 1997, GAF resolved approximately 11,000 Asbestos Claims and received notice of approximately 30,900 new Asbestos Claims. Of the Asbestos Claims resolved in 1997, approximately 8,900 were resolved (including Asbestos Claims disposed of at no cost to GAF) for an average cost of approximately \$3,700 per claim. GAF's share of the costs with respect to approximately 2,100 Asbestos Claims resolved in 1997 has not yet been determined. There can be no assurance, however, that the actual costs of resolving pending and future Asbestos Claims will approximate GAF's historic average costs.

GAF has stated that it is committed to effecting a comprehensive resolution of Asbestos Claims, that it is exploring a number of options, both judicial and legislative, to accomplish such resolution, but there can be no assurance that this effort will be successful.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been involved in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims. Should GAF, however, be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF and, in that regard, seek to recapture assets recently distributed by GAF, including assets distributed in the Separation Transactions. Although the Company does not believe any such action to unwind the Separation Transactions would be successful, there can be no assurance in that regard. If a creditor were successful in recapturing assets distributed in the Separation Transactions, such creditor could seek to enforce any asbestos-related judgment against GAF's holdings of common stock of ISP Holdings and its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company. See Note 6 for discussion of the Credit Agreement.

Environmental Litigation

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ("Environmental Claims"), in which recovery is sought for the cost of cleanup of contaminated sites, a number of which Environmental Claims are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims (including those relating to its closed Linden, New Jersey plant described below), as of December 31, 1997, is approximately \$17.8 million, before reduction for insurance recoveries reflected on the Company's balance sheet (discussed below) of \$7.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

million that relate to both past expenses and estimated future liabilities ("estimated recoveries"). The gross environmental liability is included within "Accrued liabilities" and "Other liabilities", and the estimated recoveries are included within "Other current assets" and "Other assets".

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and that the recoveries could be well in excess of the current estimated liability for all Environmental Claims, although there can be no assurances in this regard. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

In March 1995, GAF commenced litigation on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities seeking amounts substantially in excess of the estimated recoveries. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection ("NJDEP") requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee the Company's performance. This Consent Order does not address any potential natural resource damage claims. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than \$7.5 million.

Lease Commitments

Leases for certain equipment at the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1997 and 1996 in the amount of \$2.1 and \$2.3 million, respectively. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was \$9.7, \$8.7 and \$8.2 million for 1997, 1996 and 1995, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1997 were as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
	(THOUSANDS)	
1998.....	\$ 782	\$3,590
1999.....	487	2,409
2000.....	434	1,582
2001.....	339	625
2002.....	255	449
Later years	--	733
	-----	-----
Total minimum payments	2,297	\$9,388
		=====
Less interest included above	(358)	

Present value of net minimum lease payments	\$1,939	
	=====	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project during 1998. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

See Note 2 for information regarding additional contingencies.

NOTE 13. SUBSEQUENT EVENT

The Company announced in December 1997 that it had entered into an agreement to purchase Polaroid Corporation's Freetown, Massachusetts fine chemicals facility. The transaction was completed in February 1998. In connection with the purchase, the Company entered into a sale-leaseback arrangement of the facility's equipment with a third party. The lease is to be accounted for as an operating lease, with an initial term of four years and, at the Company's option, up to three one-year renewal periods. As part of the transaction, the Company entered into a long-term supply and license agreement with Polaroid for the imaging chemicals and polymers manufactured at the facility and used by Polaroid in its instant film business.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY DATA (UNAUDITED)

QUARTERLY FINANCIAL DATA (UNAUDITED)

	1997 BY QUARTER				1996 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
	(MILLIONS)							
Net sales	\$191.2	\$197.8	\$183.6	\$176.6	\$185.6	\$185.0	\$173.6	\$172.3
Cost of products sold	114.2	116.2	105.8	100.5	112.9	107.1	100.3	98.6
Gross profit	\$ 77.0	\$ 81.6	\$ 77.8	\$ 76.1	\$ 72.7	\$ 77.9	\$ 73.3	\$ 73.7
Operating income	\$ 36.8	\$ 39.5	\$ 35.2	\$ 31.8	\$ 34.2	\$ 38.0	\$ 33.5	\$ 30.3
Income before income taxes.....	\$ 36.2	\$ 39.9	\$ 35.6	\$ 32.9	\$ 31.3	\$ 35.6	\$ 31.3	\$ 27.8
Income taxes	(13.0)	(14.4)	(12.8)	(11.8)	(11.4)	(13.0)	(11.2)	(9.7)
Net income	\$ 23.2	\$ 25.5	\$ 22.8	\$ 21.1	\$ 19.9	\$ 22.6	\$ 20.1	\$ 18.1
Earnings per common share(1):								
Basic	\$.24	\$.27	\$.24	\$.22	\$.20	\$.23	\$.21	\$.19
Diluted	\$.24	\$.26	\$.23	\$.22	\$.20	\$.23	\$.21	\$.19

(1) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters. Previously reported earnings per share data have been restated to present "Basic Earnings per Share" and "Diluted Earnings per Share", in accordance with the provisions of SFAS No. 128, "Earnings per Share". See Note 1 to Consolidated Financial Statements.

SCHEDULE II

INTERNATIONAL SPECIALTY PRODUCTS INC.

VALUATION AND QUALIFYING ACCOUNTS

YEAR ENDED DECEMBER 31, 1997
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 1997	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1997
-----	----	-----	-----	----
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 2,840	\$ 338	\$ 454 (a)	\$ 2,724
Reserve for inventory market valuation	12,812	7,631	6,360	14,083

YEAR ENDED DECEMBER 31, 1996
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 1996	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1996
-----	----	-----	-----	----
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 2,879	\$ 272	\$ 311 (a)	\$ 2,840
Reserve for inventory market valuation	13,978	8,329	9,495	12,812

YEAR ENDED DECEMBER 31, 1995
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 1995	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1995
-----	----	-----	-----	----
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 2,292	\$ 681	\$ 94 (a)	\$ 2,879
Reserve for inventory market valuation	9,631	8,861	4,514	13,978

Note:

(a) Represents write-off of uncollectible accounts net of recoveries.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS)

The 9% Senior Notes discussed in Note 6 to Consolidated Financial Statements were issued by ISP Chemicals Inc. and ISP Technologies Inc., domestic subsidiaries of ISP (the "Issuers") and are guaranteed by ISP and certain of its domestic subsidiaries (the "Subsidiary Guarantors"). Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries constitute all of the domestic subsidiaries of ISP, except for International Specialty Products Funding Corporation, a special purpose subsidiary of ISP which is the seller of ISP's accounts receivable. See Note 3 to Consolidated Financial Statements. This financial information should be read in conjunction with ISP's Consolidated Financial Statements and related notes included in this Form 10-K. Financial information for ISP's foreign subsidiaries, including its investment in GAF-Huls, is reflected in the following financial information by the equity method of accounting.

**COMBINED CONDENSED STATEMENTS OF INCOME
FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS**

YEAR ENDED DECEMBER 31,

	1997	1996	1995
	-----	-----	-----
	(MILLIONS)		
Net sales	\$571.2	\$521.1	\$486.0
	-----	-----	-----
Costs and expenses:			
Cost of products sold	384.6	355.2	333.7
Selling, general and administrative	96.3	88.3	81.2
Goodwill amortization	13.2	13.2	13.2
	-----	-----	-----
Total costs and expenses	494.1	456.7	428.1
	-----	-----	-----
Operating income	77.1	64.4	57.9
Interest expense	(25.7)	(27.3)	(34.3)
Equity in income of foreign subsidiaries and			
50% owned joint venture	54.4	61.8	53.3
Other income, net	27.0	20.2	22.4
	-----	-----	-----
Income before income taxes	132.8	119.1	99.3
Income taxes	(42.5)	(38.6)	(31.9)
	-----	-----	-----
Net income	\$ 90.3	\$ 80.5	\$ 67.4
	=====	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND THE SUBSIDIARY
GUARANTORS)--(CONTINUED)COMBINED CONDENSED BALANCE SHEETS
FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS

	DECEMBER 31,	
	1997	1996
	(MILLIONS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7.2	\$ 5.3
Investments in trading securities	28.8	0.7
Investments in available-for-sale securities	70.4	59.8
Other short-term investments	7.8	6.1
Accounts receivable, net	10.6	4.9
Receivable from related parties, net	6.3	5.0
Loan receivable from related party	--	2.6
Inventories	74.4	67.5
Other current assets	13.7	11.0
	-----	-----
Total Current Assets	219.2	162.9
Property, plant and equipment, net	481.7	459.7
Excess of cost over net assets of businesses acquired, net	404.1	417.3
Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	203.6	192.2
Other assets	24.2	22.1
	-----	-----
Total Assets	\$1,332.8	\$1,254.2
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 17.2	\$ --
Current maturities of long-term debt	0.6	0.6
Accounts payable	32.2	29.7
Accrued liabilities	44.8	39.9
	-----	-----
Total Current Liabilities	94.8	70.2
Long-term debt less current maturities	274.4	310.0
Long-term notes payable to related party	54.0	62.6
Deferred income taxes	70.3	52.7
Other liabilities	59.9	59.7
Stockholders' Equity	779.4	699.0
	-----	-----
Total Liabilities and Stockholders' Equity	\$1,332.8	\$1,254.2
	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND THE SUBSIDIARY
GUARANTORS)--(CONTINUED)COMBINED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(MILLIONS)		
Cash and cash equivalents, beginning of year	\$ 5.3	\$ 3.3	\$ 9.9
Cash provided by operating activities:			
Net income	90.3	80.5	67.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	38.4	35.4	33.6
Goodwill amortization	13.2	13.2	13.2
Deferred income taxes	14.1	(2.5)	(18.8)
(Increase) decrease in working capital items	(8.4)	9.4	(7.1)
Purchases of trading securities	(92.8)	(10.3)	(66.5)
Proceeds from sales of trading securities	58.1	19.5	104.1
Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	(10.3)	(34.4)	(26.8)
Change in net receivable from/payable to related parties	(1.2)	(14.5)	6.1
Change in cumulative translation adjustment	(7.5)	(8.4)	6.9
Other, net	(3.5)	(4.6)	8.1
Net cash provided by operating activities	90.4	83.3	120.2
Cash used in investing activities:			
Capital expenditures	(61.4)	(45.5)	(34.4)
Purchases of available-for-sale securities	(146.7)	(170.0)	(325.3)
Purchases of other short-term investments	--	(1.3)	(2.2)
Proceeds from sales of available-for-sale securities	151.7	188.9	255.6
Net cash used in investing activities	(56.4)	(27.9)	(106.3)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	--	2.0	3.7
Increase (decrease) in short-term debt	17.2	(13.0)	13.0
Increase (decrease) in borrowings under revolving credit facility	(35.4)	29.6	(4.2)
Other increase (decrease) in long-term debt, net	(0.2)	0.4	(1.4)
Decrease in loans from related parties	(6.0)	(57.9)	(15.2)
Repurchases of common stock	(10.2)	(15.1)	(16.6)
Other, net	2.5	0.6	0.2
Net cash used in financing activities	(32.1)	(53.4)	(20.5)
Net change in cash and cash equivalents	1.9	2.0	(6.6)
Cash and cash equivalents, end of year	\$ 7.2	\$ 5.3	\$ 3.3

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of ISP's wholly-owned foreign subsidiaries and its 50% owned joint venture, GAF-Huls. Domestic operating income includes \$43.3, \$39.4 and \$28.4 million of profits on sales made by ISP's domestic subsidiaries to its foreign-based subsidiaries for 1997, 1996 and 1995, respectively. Profits earned on sales to the foreign-based subsidiaries which were included in the foreign-based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign-based subsidiaries and GAF-Huls aggregated \$23.4, \$18.7 and \$26.0 million for 1997, 1996 and 1995, respectively.

EXHIBIT INDEX

EXHIBIT -----	DESCRIPTION -----
21	List of Subsidiaries
23	Consent of Independent Public Accountants
27	Financial Data Schedule

INTERNATIONAL SPECIALTY PRODUCTS INC.
LIST OF SUBSIDIARIES

COMPANY -----	STATE OF INCORPORATION -----
International Specialty Products Inc.	Delaware
ISP Management Company, Inc.	Delaware
ISP Minerals Inc.	Delaware
ISP Filters Inc.	Delaware
ISP Technologies Inc.	Delaware
ISP Mineral Products Inc.	Delaware
ISP Environmental Services Inc.	Delaware
Bluehall Incorporated	Delaware
Verona Inc.	Delaware
ISP Realty Corporation	Delaware
ISP Real Estate Company, Inc.	Delaware
International Specialty Products Funding Corporation	Delaware
ISP Chemicals Inc.	Delaware
ISP Newark Inc.	Delaware
ISP Van Dyk Inc.	Delaware
ISP Fine Chemicals Inc.	Delaware
ISP Freetown Fine Chemicals Inc.	Delaware
ISP Investments Inc.	Delaware
ISP Global Technologies Inc.	Delaware
ISP International Filters Inc.	Delaware
ISP International Corp.	Delaware
ISP (Puerto Rico) Inc.	Delaware
GAF Huls Chemie GmbH	Germany
ISP Andina, C.A.	Venezuela
ISP Argentina S.A.	Argentina
ISP Asia Pacific Pte Ltd.	Singapore
ISP (Australasia) Pte Ltd.	Australia
ISP (Belgium) N.V.	Belgium
ISP (Belgium) International N.V.	Belgium
ISP do Brasil Ltda.	Brazil
ISP (Canada) Inc.	Canada
ISP Ceska Republika Spol, S.R.O.	Czech. Rep.
ISP (China) Limited	China
ISP Colombia Ltda.	Colombia
ISP Filters (Canada) Inc.	Canada
ISP Filters Pte Ltd.	Singapore
ISP Freight Service N.V.	Belgium
ISP Global Operations (Barbados) Inc.	Barbados
ISP Global Technologies (Belgium) S.A.	Belgium
ISP Global Technologies (Germany) Holding GmbH	Germany
ISP Global Technologies Deutschland GmbH	Germany
HPF-Hanseatic Filterprodukte GmbH	Germany
International Specialty Products ISP (France) S.A	France

ISP Ireland(1)	Ireland
ISP (Great Britain) Co. Ltd.	England
ISP (Hong Kong) Limited	Hong Kong
ISP (Italia) S.r.l.	Italy
ISP (Japan) Ltd.	Japan
ISP (Korea) Limited	Korea
ISP Mexico, S.A. de C.V.	Mexico
ISP (Norden) A.B.	Sweden
ISP (Osterreich) Ges.m.g.h.	Austria
ISP (Polska) Sp.z. o.p.	Poland
ISP Sales (Barbados) Inc.	Barbados
ISP Sales (U.K.) Limited	Ireland
ISP (Singapore) Pte Ltd.	Singapore
ISP (Switzerland) A.G.	Switzerland
ISP (Thailand) Co., Ltd.	Thailand
Chemfields Pharmaceuticals Private Limited(2)	India

(1) 25% owned by ISP (Italia) S.r.l.; 75% owned by International Specialty Products ISP (France) S.A.

(2) 50.1% owned by ISP Global Technologies Inc.

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 23, 1998, included in or made part of this Form 10-K, into International Specialty Products Inc.'s previously filed Registration Statements on Form S-8 File Nos. 33-54724, 33-92518, 33-94020 and 333-27505.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
March 27, 1998

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL REPORT ON FORM 10-K OF INTERNATIONAL SPECIALTY PRODUCTS INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000874578

NAME: INTERNATIONAL SPECIALTY PRODUCTS INC.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
CASH	19,730
SECURITIES	161,749
RECEIVABLES	67,077
ALLOWANCES	2,724
INVENTORY	119,910
CURRENT ASSETS	418,564
PP&E	513,206
DEPRECIATION	215,935
TOTAL ASSETS	1,395,584
CURRENT LIABILITIES	151,597
BONDS	274,642
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	999
OTHER SE	783,231
TOTAL LIABILITY AND EQUITY	1,395,584
SALES	749,208
TOTAL REVENUES	749,208
CGS	436,693
TOTAL COSTS	436,693
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	26,126
INCOME PRETAX	144,638
INCOME TAX	51,989
INCOME CONTINUING	92,649
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	92,649
EPS PRIMARY	.96
EPS DILUTED	.96

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